ACADEMY OF CIVIL SERVICES

Indian Economy

Economics: The Discipline

- Economics is the discipline which studies **how individual, society and the government make their prioritised choices in the process of using the scarce resources** to gratify the various needs and wants of life.
- The first and the most famous work in this direction was by the Scottish philosopher-economist **Adam Smith in The Wealth of Nations (1776)**
- Adam Smith is considered as the **father of Economics**

Organising an Economy

- **Capitalist Economy:** The capitalist form of economy has its origin in the famous work of **Adam Smith-wealth of Nations (1776)**
- Government regulation of commerce and industry of his time did not allow the economy to tap its full economic worth and reach the level of well-being.
- Then Adam Smith advocated for **"division of labour", 'laissez faire' and invisible hand' of 'market forces'**
- Adam Smith acknowledged the need of **competition in the market.**
- By 1800, the economic system called capitalism was established which was later known by different names- **Private Enterprises System, Free Enterprise System or Market economy**
- The decisions of **what to produce, how much to produce and at what price to sell are taken by the market and by the private enterprise in this system**.

State Economy

- Proposed by the German philosopher **Karl Marx (1818-1883)**
- **Marx believed in a stateless society**
- First came up in the erstwhile **USSR after the Bolshevik Revolution (1917)** and got its **ideal shape in the people republic of China (1949)**
- This form of economic system also spread to other countries in **eastern Europe**
- Here, we see two versions of the state economy-**in erstwhile USSR known as the socialist economy** and in the pre-1985, **China known as the communist economy**
- **Socialist economics** emphasised **collective ownership of the means of production** (property and assets) and also ascribed a large role to the **state in running the economy**

- While **communist economy** on the other hand advocated **state ownership of all properties including labour with absolute power to state in running the economy**.
- **Socialism was a transitional stage to communism** which never did happen
- **According to Marx, the class struggle is mandatory and he explained the class struggle with his theory of dialectical materialism**

Mixed Economy

- The self-correcting quality of the market and **the invisible hand of Adam Smith** got a major setback in early 20th century during the **great depression (1929)**
- A new approach was needed which came in the famous work, **The General theory of Employment, Interest and Money (1936)** by the English economist at Cambridge University, **John Maynard Keynes (1883-1946**)
- **Keynes suggested strong government intervention** in the economy
- To get the economy out of the depression, **he suggested an increase in government expenditures, discretionary fiscal policy (fiscal deficit, lower interest rate, cheap money supply etc.)**
- **India was a closed economy till 1991 without much promotion for export and import of goods and services**
- **The process of economic reforms in India started in 1991**.
- It was in fact the search for a **new state market mix, while India had been a mixed economy since Independence.**

Development Economics

- **Development economics aims at enabling the economic growth of the poor countries from low income to decent standard of living**
- **It focuses on improving the well-being of the people in health, education and employment align with the shifting from agriculture to the industry**

Gandhian Economic Principles

- **Gandhian economics is** a term coined by **J. C. Kumarappa** for Gandhi's approach to meeting material human needs.
- It includes following aspects
- **An economy based on needs rather than wants**

- **Swadeshi (in the economic sense, localism and material self-sufficiency at the village level)**
- **Economic decentralization**
- **The value of cottage industry and the interdependence of small, local producers rather than dependence on mass production**
- **Bread labor**
- **Simplicity**
- **Self sufficiency**
- **Trusteeship to the spiritual idea of non-possession)**
- **Trusteeship of the natural functioning environment**
- **Gandhi also believed in a stateless society in which every individual will do his economic functions voluntarily**

Nehruvian Economics

- **It is based on socialism**
- **Nehru believed in the state ownership of the basic parts of the economy like infrastructure, higher education, metal and other industries**
- **It supported self-reliance in the economic growth**

Sectors of an Economy

- **Primary Sector:** The sector includes all those economic activities where there is the **direct use of natural resources as agriculture, forestry, fishing, fuels, metals, minerals, etc.**
- **Secondary Sector:** The sector is rightly called the **manufacturing** sector.
- **Tertiary Sector:** The sector includes all economic activities where **different services** are produced such as education, banking, insurance, transportation, tourism, etc. This sector is also known as services sector.
- **Quaternary Sector:** The sector includes specialised activities in knowledge sector like Mutual Fund managing, tax consultancy and software development
- **Quinary Sector:** The sector includes the gold collar jobs like research scientist and government officials of high-profile positions like IAS.
- **Tertiary sector is highest contributor to Ind's GDP at present**

- **At the same time, highest number of Indians are still employed in primary sector (Agriculture)**
- What it means is that **there are more people in agriculture than is necessary**. So, even if you move a few people out, production will not be affected. In other words, **workers in the agricultural sector are underemployed**.
- In the situation of underemployment, people are apparently working but all of them are **made to work less than their potential.**
- This kind of underemployment is hidden in contrast to someone who does not have a job and is clearly visible as unemployed. Hence, it is also called **disguised unemployment**
- **Organised Sector:** organised sector. Organised sector covers those enterprises or places of work where the terms of **employment are regular** and therefore, **people have assured work**.
- They **are registered by the government and have to follow its rules** and regulations which are given in various laws such as the **Factories Act, Minimum Wages Act, Payment of Gratuity Act, Shops and Establishments Act etc.**
- **Unorganized Sector:** The unorganised sector is **characterised by small and scattered units** which are largely outside the control of the government.
- There are rules and regulations, **but these are not followed**.
- Jobs here are **low-paid and often not regular**.
- There is **no provision for overtime, paid leave, holidays, leave due to sickness** etc.
- **Employment is not secure.** People can be asked to leave without any reason. When there is less work, such as during some seasons, some people may be asked to leave

The idea of National Income

- **Central Statistical Office (CSO)** under the ministry of Statistics and Programme Implementation calculates national income in India
- **India calculates national income at constant prices. Constant price means the price of the goods and services in the base year**
- **Current Price means the maximum retail price in the present year by adding the effects of inflation to the price in the base year**

- **Most of the developed countries are calculating the national income at current price**
- There are four ideas/ways to calculate the income of a nation.
- **GDP, NDP, GNP and NNP.**

GDP

- **Gross Domestic Product (GDP)** is the value of the all final goods and services produced **within the boundary of a nation** during one-year period.
- For India, this calendar year is from **1st April to 31st March.**
- It is also calculated by adding national **private consumption, gross investment, government spending and trade balance (exports minus imports).**
- **C+I+GS+ (E-I)**
- **Even during the economic crisis of 2008-09, the GDP of India has grown, but the growth rate was comparatively less than the previous years**

NDP

- **Net Domestic Product (NDP)** is the GDP calculated **after adjusting the weight of the value of depreciation.**
- This is basically net form of the GDP, i.e. is **GDP minus the total value of the 'wear and tear'(depreciation)** that happened in the assets while the goods and services were being produced.
- **Thus NDP=GDP-Depreciation**

GNP

- **Gross National Product (GNP)** is the **GDP of a country added with its Net income from abroad.**
- **Private remittances** will be added to GDP
- **Interest on External Loans:** the net outcome on the front of the interest payments, and balance of inflow will also be calculated.
- **External grants:** the net outcome of the external grants i.e., the balance of such grants which flow to and from India will also be calculated.
- **India's GNP is lesser than GDP.**

NNP

- **Net national Product (NNP)** of an economy is the **GNP after deducting the loss due to depreciation.** The formula to derive it may be written like:
- **NNP=GNP-Depreciation**. / **NNP=GDP+ Net Income from abroad- Depreciation**.

Nominal and Real GDP

- In the calculation of GDP, one implicit assumption is that the **prices of goods and services do not change during the period of our study.**
- If prices change, then there may be difficulties in comparing GDPs.
- If we measure the GDP of a country in two consecutive years and see that the figure for GDP of the latter year is twice that of the previous year, **we may conclude that the volume of production of the country has doubled.**
- But it is possible that only prices of all goods and services have doubled between the two years whereas the production has remained constant.
- Therefore, in order to compare the GDP figures (and other macroeconomic variables) **of different countries or to compare the GDP figures of the same country at different points of time,** we cannot rely on GDPs evaluated at current market prices.
- For comparison we take the **help of real GDP**. Real GDP is calculated in a way such that the goods and services are **evaluated at some constant set of prices** (or constant prices). Since these prices remain fixed, if the **Real GDP changes we can be sure that it is the volume of production which is undergoing changes**.
- Nominal GDP, on the other hand, is simply the value of GDP at the **current prevailing prices.**

Gross Value Added and Gross Domestic Product

- Economic growth is estimated using two main methods—demand side and supply side.
- Under supply side, **the value-added by the various sectors in the economy (i.e., agriculture, industry and services) are added up to derive the gross value added (GVA).**
- This way, it captures the income generated by all economic actors across the country.

- Under the demand side, GDP is arrived by adding up all expenditures done in the economy (Private consumption of individuals and households, government spending, business enterprises, and net exports (exports minus imports). It includes all the taxes received and all subsidies disbursed by the government.
- Thus, GDP is equal to GVA added with the net taxes (taxes minus subsidies).
- **Gross Value Added = GDP + subsidies on products - taxes on products**
- While **GDP is a good measure in comparative studies (comparing economies),** GVA is a better measure to **compare different sectors within the economy**.

Three Types of Personal Income

- **Nominal Income: The wage someone gets in hand per day or per month**
- **Real Income: It is nominal income minus the present day rate of inflation**
- **Disposable Income: The usable income of an individual after paying the direct taxes to the government**

Revision in the Base Year and Method of national income accounting

- **The central statistics office(CSO) in January 2015** released the new and revised data of national Accounts effecting two few changes.
- **This was done to bring the whole of process of national income accounting into conformity with the United Nations System of National Accounts (SNA) of 2008**
- **Started calculating national income based on Market cost instead of factor cost**
- **Factor cost is the input cost the producer has to incur (Factory Cost and it excludes the taxes)**
- **Market cost is the cost at which the goods reach the market (It includes the indirect taxes on the product)**
- Changed the method of measuring the GVA from the Factor Cost to the Basic Prices
- GVA at basic prices will **include production taxes** and **exclude production subsidies.**
- GVA at factor cost included no taxes and excluded no subsidies.
- The base year was **revised from 2004-2005 to 2011-2012.**
- Recently government has proposed to change it to 2017-18

Standing Committee on Economic Statistics

- Aimed at looking into collection of economic datasets, the Government by late December 2019, set up **the Standing Committee on Economic Statistics (SCES).**
- Headed by the ex-Chief **Statistician Pronab Sen**, the 28-member broad-based committee has members coming from the **UNO, RBI, Ministry of Finance, Niti Aayog, Tata Trust, economists and statisticians from several universities.**
- The committee has been given will look into datasets such as the Periodic Labour Force Survey, Annual Survey of Industries, Annual Survey of Services Sector Enterprises, Annual Survey of Unorganised Sector Enterprises, Time Use Survey, Index of Service Production, Index of Industrial Production, Economic Census and other surveys or statistics brought before it. The new panel subsumed all existing Standing Committees on labour, industry, services, etc.
- The committee is set up with aim of complying with **SDDS (Special Data Dissemination Standard) of the IMF (International Monetary Fund).**

SDDS of the IMF

- IMF launched the SDDS in 1996.
- Aim is **data transparency in all member countries**
- It has over **20 data categories including national income accounts, production indices, employment, and central government operations.**

Economic Growth

- A term coming from the life sciences growth.
- We may say that economic growth is a **quantitative progress.**
- **Growth is quantifiable**
- **Capital formation is mandatory for economic growth in any nation**

Economic Development

- **Development indicates the quality of life in the economy**, which might be seen in accordance with the availability of many variables such as:
- The level of **nutrition.**
- The expansion and reach of **healthcare** facilities – hospitals, medicines, safe drinking water, vaccination, sanitation, etc.
- The level **education**
- Other variables on which the quality of education depends.
- Higher economic development requires higher economic growth. But it does not mean that a higher economic growth automatically brings in higher economic development
- Economic development is **quantitative as well as qualitative progress in an economy**
- The concern on the development for the various countries has led to the emergence of the concept **of welfare state**

Physical Capital

- Physical capital is referred to as being one of the three main factors in the production process.
- Physical capital consists **of items like money, machinery, buildings, equipment.**
- Physical capital includes man made goods **that are used in the process of production for converting raw material to finished goods.**
- Any new project requires a significant amount of investment in physical capital.

Human Capital

- Human Capital implies the intangible wealth a worker has like knowledge which a worker has in the manner of **education, talents, abilities, talents, knowledge, preferences etc**., which he or she has gathered over time.
- The notion makes it obvious that all the workers at the job, are unequal, and they differ in their skill

Social Capital

- The term social capital was popularized by **Robert Putnam** and can be defined as **networks together with shared norms, values and understandings that facilitate co-operation within or among groups**
- Social capital can be classified into following three types

- **Bonds**– Links to people based on a sense of common identity ("people like us") – such as **family, close friends and people who share our culture or ethnicity (homogenous groups).**
- **Bridges:** Links that stretch beyond a shared sense of identity
- **For Example, distant friends, colleagues and associates (heterogeneous groups).**
- **Linkages: Links to people or groups further up or lower down the social ladder.**

Capital Output Ratio

- Capital output ratio is the **amount of capital needed to produce one unit of output**
- **If capital output ratio is low, it means high production with less capital**
- **If capital output ratio is high, it means less production even if there is high capital**

Human Development Index

- **United Nations Development Programme (UNDP)** published its first Human Development Report (HDR) in 1990. The report had a **Human Development Index. (HDI)**
- The first such team which developed the HDI was led by **Mahbub Ul Haq and Inge Kaul along with Indian economist Amartya Sen.**
- The term Human development is a corollary of development in the index.
- The HDR measures development by combining three indicators – **Health, Education and Standard of Living.**
- **Education is measured by two indicators**
  1. **Mean years of schooling for adults aged 25 years**
  2. **Expected years of schooling for children of school entering age (Maximum is capped at 18 years)**
- **Health is measured by life expectancy at birth (Minimum value of 20 years and maximum value of 83.57 years**
- **Standard of Living is measured by Gross national Income per capita at purchasing power parity (Not GDP Per capita)**
- **The overall score of HDI varies between 0 and 1**
- **High Human Development Countries (0.800-1.000)**
- **Medium Human Development Countries (0.500-0.799)**

- **Low Human Development Countries (0.000-0.499)**
- **India's rank at present is …………………………………**
- **India is placed in the medium human development category**
- **At present, first rank is……………………………and last rank is ………………….**

World Development Report of the World Bank

- In World Development Reports, brought out by the **World Bank, per capita income** is used in classifying countries based on their development.
- **Countries with per capita income of US$ 12236 per annum and above in 2016, are called rich countries and those with per capita income of US$ 1005 or less are called low-income countries.**
- **India comes in the category of low middle-income countries because its per capita income in 2016 was just US$ 1840 per annum.**
- **The rich countries, excluding countries of Middle East and certain other small countries, are generally called developed countries.**

Happiness

- Gross national Happiness was an idea developed by former King of Bhutan **Jigme Singhya Wangchunck in 1972**
- **The Gross National Happiness of Bhutan was based on following matters**
  1. **Higher per capita Income**
  2. **Good Governance**
  3. **Environmental Protection**
  4. **Cultural Promotion (Inculcation of ethical and spiritual values)**
- The World Happiness Report was first published in 2012 by **the sustainable Development Solutions Network (an UN body)**..
- It ranks nation based on six key factors.
  1. **GDP per capita (at PPP)**
  2. **Social support (someone to count)**
  3. **Healthy life expectancy at birth**
  4. **Freedom to make life choices.**
  5. **Generosity, and**
  6. **Perception of Corruption**

- At present, happiest nation in the world is …………………………………………
- **Lowest happy nation is……………………………………………………………**……….
- **India is placed at………………………………………………………………….**

Monetary and Credit Policy

Definitions

- **Strategy of influencing movement of money supply and interest rates to affect output and inflation**
- **In India, these functions are done by RBI**
- The actions of Central bank which determine the size and **rate of growth of money supply**
- The regulation of money supply and interest rates by a central bank to control inflation and stabilise currency.
- **Expansionary monetary policy** means that the RBI is reducing the policy rates
- **Contractionary monetary policy** means that the RBI is increasing the policy rates

Goals of Monetary Policy

- **Constrain inflation/ price stability and Balance savings**
- **Maintain exchange rate**
- **Generate jobs**
- **Economic growth**

Components of Monetary Policy

- **Changing interest rate**
- **Setting reserve requirements**
- **Trading in foreign exchange markets**

Monetary Policy Tools Available for RBI

Policy Rates

Bank Rate

- Rate at which **RBI lends long term to commercial banks.**

- Any revision of it is a **signal to banks to revise deposit rates and prime lending rate or Base rate or marginal cost lending rate.**
- Bank Rate is a **blunt instrument and not changed usually.**
- **At present Bank rate is…………………………………………………………………**

Ready Forward Contracts or Repos. (Rate of Purchase)

- **Definition: a transaction in which two parties agree to sell and repurchase the same security**.
- **Seller sells with an agreement to repurchase** the same at a mutually decided future date and price
- **Buyer purchases with an agreement to sell the same to the seller** an agreed future date and price.
- RBI **lends to banks as the security of government as collateral (repro)**
- Banks **repurchase the security over night or after few days.**
- RBI changes a repo rate for the money it lends regularly
- **Repo rate at present is………………………………………………………………..**
- **Reverse Repo:** when RBI borrows from the banks
- **It is presently ………………………………………………………………………..**
- Repo and Reverse Repo: only done at Mumbai.
- Only in securities approved by RBI. i.e**, T Bills, Central/state government securities.**

MSF: Marginal Standing Facility

- **It was introduced in 2011-12**
- **A window through which commercial banks can borrow from the RBI at a rate that is up to 1% more than Repo rate.**
- It is to **ease liquidity.**
- **1% of the value of deposits is the limit for the MSF for cash bank.**
- **Present rate is……………………………………………………………………………..**

Standing Deposit Facility Rate

- The main purpose of SDF **is to reduce the excess liquidity in the system and control inflation.**

- **In 2018, the amended Section 17 of the RBI Act empowered the Reserve Bank to introduce the SDF –** an additional tool for absorbing liquidity without any collateral.
- **SDF is a tool for RBI to collect money from Commercial banks without selling any government security (In reverse repo selling government security is compulsory)**
- **The SDF rate will be 25 bps below the policy rate (Repo rate)**

Reserve Requirements

- **Fractional reserve banking:** banks keep a fraction of total deposits managed by a bank **as reserves and are not to be lent.**
- Reserve ratios are **periodically changed by RBI**
- It is for various needs like**: provide loan to the government(SLR), inflation management (CRR)**
- Either in the form of **RBI approved securities (SLR)** or in the form of **cash kept with RBI(CRR).**

Statutory Liquidity Ratio (SLR)

- It is the **portion of time and demand liabilities of banks**
- Kept in the **form of designated liquid assets.**
- For Example, government and other RBI approved securities and public sector bond.
- **Aim of SLR is that the need for government fund is partially but surely met with this reserve**.
- Progressively **brought down from 38.5%(1991) to 19.5% (2018)**
- It is a blunt instrument and was unchanged for more than a decade and half till 2008.
- RBI Act, 1934 and Banking Regulation Act, 1949, fixed floor and cap on SLR at 25% and 40%.
- Amendment in 2006 removed this cap and floor
- **Present rate is ……………………………………………………………………….**

Cash Reserve Ratio (CRR)

- A portion of **bank deposits that a bank should keep with RBI in cash form.**
- RBI Act ,1934 and Banking Regulation Act ,1949 fixed **floor and cap at 3% and 20%.**
- **This was removed in 2006.**
- CRR is adjusted **to manage liquidity and inflation.**

- More CRR **means that less money available for lending.**
- It has been reduced from **15% in 1991 to 4% in 2019.**
- Used only when **there is a relatively serious need.**
- Otherwise, RBI relies **on Open Market Operations.**
- **CRR at present is………………………………………………………………….**

Open Market Operations of RBI

- Open Market means **Banks and Financial Institutions**.
- **Definition: purchases and sales of government securities and certain other securities in open market by RBI** to influence the volume of money and credit in the economy.
- By **purchase inject money into market and expands credit**
- By **sale absorbs money and shrinks credit.**
- Most important and flexible tools of RBI.

Monetary Policy Committee

- Monetary Policy Committee **came into force on 27th June 2016**
- It was **first proposed by Urjit Patel Committee** as a **five-member Monetary Policy Committee.**
- **Later, the government proposed the setting up of a seven member committee**
- Presently **it is a six member body including the chairperson**
- MPC is assisted by the **Monetary Policy Department (MPD) of the Reserve Bank** in the formulation of the policy
- **Chairperson** of the Monetary Policy committee is the **Governor of the Reserve Bank of India**
- Monetary Policy Committee was formed with the mission of **fixing the benchmark policy interest rate (repo rate) to restrain inflation within the particular target level**
- Earlier Governor of the RBI was alone taking decisions on benchmark rates of the RBI
- Hence, the MPC brings more transparency to the functioning of the RBI

- MPC conducts meetings at **least 4 times a year and the monetary policy is published after every meeting with each member explaining his opinions.**

Reserve Bank of India

- Established in **1934 with share capital of 5 crore.**
- Recommended by **Hilton young commission.**
- **Nationalised in 1949.** Then, it became central banking body of India and did not remain as a bank in technical sense
- Superintendence and direction by: **Central board of directors 20 members.**
- There is One **Governor and 4 department Governors.**
- One government official from Ministry of Finance.
- 10 nominated directors by the government.
- 4 nominated directors by the government to represent four local boards in **Mumbai, Kolkata, Chennai and Delhi.**
- **RBI Act ,1934 came into effect in 1935.**

Functions

- All functions are given by RBI Act ,1934

1. Bank of Issue

- Section 22 of RBI Act authorises RBI to issue notes of all denominations **except rupee 1 currency**
- **Rupee One currency** is issued by **Ministry of Finance with the signature of finance secretary**
- Then, Distribution of one-rupee notes and coins and small coins are undertaken by RBI as an agent of government.
- Indian currency is a legal tender by the RBI. It means that RBI **is under compulsion to accept the settlement of the claim of a holder of Indian currency**
- RBI has separate **issue department to issue currency notes.**
- RBI should **maintain Gold and Foreign exchange reserves** for the currency it issues
- **Restriction to print:** it should not create instability not too much on too less

2. Banker to Government

- **Government banker agent and adviser.**

- It has the obligatory **to transact government business to receive and make payments on behalf of government**
- It makes **ways and means advances to government.**
- Gives **loans and advances to state and local governments.**

3. **Banker's bank and Lender of the Last Resort**

- Scheduled banks **can borrow from RBI through eligible securities**.
- **CRR of banks are kept with RBI**
- It is **lender of last resort. Lends in the time of crisis.**
- **The RBI advises the commercial banks on monetary matters**

4. **Controller of Credit**

- **Power to influence the volume of credit** created by banks.
- Banking Regulation Act,1949 tells that **RBI can ask any bank not to lend group/person.**
- **Since 1956 elective credit controls are** increasingly being used by RBI.
- Every **bank must get license from RBI. License can be cancelled by RBI.**
- Permission **from RBI is needed to open a new branch.**
- Every bank **must send a weekly return to RBI** showing in detail its asset and liabilities.
- Power to **inspect accounts of any commercial bank.**
- Since 2008, **RBI followed expansionary policy to make credit more in quantity and cheaper.**
- All rates **and reserves were reduced except bank rate.**

5. **Custodian of foreign reserves**

- Takes up operations in **India's Forex Markets to stabilize exchange-rate of rupee and to ensure that there are no speculations.**
- For this **it holds forex reserves.**
- **RBI has $421.8 billion forex reserves in 2019**
- Including currency, gold and IMF's SDRs.
- **Gold amounts only to 3-4% of total reserves and the rest is foreign currency (specially US Dollar)**

6. **Supervisory Functions**

- RBI Act ,1934 and Banking Regulation Act,1949 give supervisory powers.
- For Example, Licensing branch expansion and selling reserve ratios.

7. **Agent of Government of India in the IMF**

Audit of the RBI

- **CAG does not audit the Reserve Bank of India (RBI).CAG conducts audit of other financial sector regulators like SEBI, IRDA and PFRDA but does not conduct performance audits**
- **Ordinarily RBI will be audited by two auditors appointed by the Government of India**

Storage of Payment System Data of RBI

- Under this system the entire **date related to the payments will be stored by the RBI**
- It includes
  1. Customer data like name, mobile number, Aadhaar number, PAN.
  2. Payment-sensitive data like customer and beneficiary account details.
  3. Payment credentials like OTP, PIN.
  4. Transaction data such as originating and destination system information amount.
- **The entire data will be stored in India only**
- **There is no restriction on the processing of payment transactions outside India** if so desired by the Payment System Operators (PSO).
- Data stored in India can be accessed or fetched **whenever required for handling customer disputes as well as for any other related processing activity, such as chargeback.**
- **The data may be shared with the overseas regulator, if so required**, depending upon the nature/origin of a transaction with prior approval of the RBI.
- For cross border transaction data, (consisting of a foreign component and a domestic component) **a copy of the domestic component may also be stored abroad**

Money Supply in India

- **RBI publishes figures for five alternative measures of money supply, viz. M0, M1, M2, M3 and M4**

Reserve Money (M0)

- It is also known as High-Powered Money, monetary base, base money etc.
- M0 = Currency in Circulation + Bankers' Deposits with RBI + Other deposits with RBI.
- It is the monetary base of the economy.

Narrow Money (M1 and M2)

- M1 = Currency+ Demand Deposit
- M2 = Currency+ Demand Deposit (M1) + Savings deposits with Post Office savings banks

Broad Money

- M3 = Currency+ Demand Deposit (M1) + Net time deposits of commercial banks
- M4 = Currency+ Demand Deposit+ Net time Deposits of Commercial Bank (M3) + Total deposits with Post Office savings organisations (excluding National Savings Certificates)

Other Classification of Money

Commodity Money

- Commodity money is the type of money that is made of precious metals or commodities that have intrinsic value. Its worth remains intact even after it is melted. Gold and silver coins are the perfect example of commodity money.

Commodity-based money

- This type of monetary system can also be addressed as representative money. This type of currencies is mostly like physical bank-notes with no financial value but can be exchanged with precious metals like gold and silver. This is closely related to the term gold standard.

Fiat Money

- This type of money is also termed as legal tender as notified by the Central Government and Central Bank. This is unlike the commodity money; it might not

have an intrinsic value. Paper currencies and metal coins are examples of fiat money.

Banking System

Commercial Banks

- It mediates **between savers and borrowers**
- Its primary liabilities are **deposits** and primary assets are **loans and bonds.**

Commercial bank system consists of

- Public sector banks.
- Private sector banks.
- Cooperative banks.

12 Public Sector Banks are there in India (Government holding majority stake)

Public Sector Banks and Private Sector Banks

- Owned by government either totally or as majority stake holder.
- It includes **State Bank of India, 11 nationalised banks and most of Regional Rural Banks.**
- Private Sector banks are **both domestic and foreign banks**.
- **Cooperative banks** are such bank which are not considered as Commercial Banks because of their **social objectives and they are not profit motive**
- Reserve Bank of India lays down norms for bank in India.

Classification of Commercial Banks

- **Schedule Banks** are the banks included in the 2nd schedule of RBI Act ,1934.
- 2 conditions of RBI for them.

Conditions for them

- Can approach RBI for financial assistance and refinance
- They have Obligations to maintain a certain amount of cash as reserves as prescribed by the RBI

Following are included in Scheduled Banks

- **SBI**
- **Nationalised banks**
- **Foreign banks**
- **Private sector banks**
- **Cooperative banks**
- **RRB**

Non-Scheduled Banks

- They are **not included in second schedule of RBI Act,1934.**
- They don't have above privileges and obligations
- They have a reserve capital of less than 5 lakh rupees
- There are very few non-scheduled banks
- They are also called as Local Area Banks

Investment bank

- Asset companies **in raising funds in the capital market (equity or debt)**
- Provides **strategic advisory services for mergers, acquisitions etc.**
- Another name is Merchant **bank**

Development banks

- Financial Institutions which provide **long term capital for industries and agriculture**.
- **Industrial Finance Corporation of India ltd (IFCI)** is the first development bank of India
- Following are the major development banks in India
- **Industrial Development Bank of India**
- **Industrial Credit and Invest Corporation of India (ICICI)** was a development bank and got **merged with ICICI bank in 2000.**
- **Industrial Invest Bank of India(IIBI)**
- **Small Industries Development Bank of India(SIDBI)**
- **National Bank for Agriculture and Rural Development (NABARD)**

- **National Housing Bank(NHB)**
- Commercial Banks are to meet short term capital requirement of Industry and Agriculture.
- Special Development Financial Institutions (SDFIs are to meet long term financing requirements of Industry and agriculture.
- They get concessional finance from RBI.
- **S.H. Khan committee** 1997 appointed by RBI recommended transformation of DFIs **into universal banks**. Then they can provide a menu of services

Industrial Finance Corporation of India IFCI

- **First Development Bank in India.**
- Incorporated immediately **after independence in 1948 by Industrial Finance Corporation Act.**
- After regular intervals government started different Development banks.
- Government utilized them for the achievements in planning and development of the nation.

Cooperative Banks

- Managed on the principal of cooperation, self-help and mutual help.
- One member has one vote in the cooperative banks
- No profit no loss- do not pursue the idea of profit maximisation. Hence, it is not considered as a commercial bank
- It performs **all the main banking functions of deposit mobilization, supply of credit and remittance facilities.**
- Functionally **specialist in agriculture and related products.**
- Now providing housing loan also.
- It has a two-tier system; Agricultural and non-agricultural

Regional Rural Banks (RRBs)

- First set up on **October 2, 1975 (Only 5 in numbers)**
- The aim was to take the **banking services into doorstep of rural poor**

- The capital of RRBs are shared between **Government of India (50%), concerned state government (15%) and the sponsoring nationalised bank (35%)**
- Due to excessive lending to poor, these **banks started making losses by 1980s**
- Government set up two committees to suggest measure for restructuring the RRBs
- They are **Bhandari Committee (1994-95) and Basu Committee (1995-96)**
- As per the recommendations of these committees, the government made two policy changes
    1. **Concessional loans of RRBs abolished** and RRBs started charging commercial interest rate from its customers
    2. **The target clients (rural masses and weaker sections) were set free** and RRBs started giving loans to all customers

Bank Nationalization

- **In 1969 and 1980** government nationalised private Commercial Bank units.
- **By Banking Nationalization Act, 1969**, the government nationalized a total number of **20 private banks**
- Out of these 20, **14 banks with more than 50 crore deposits were nationalised in 1969**
- **6 banks with more than 200 crore deposits were nationalised in 1980**
- In 1993, the loss-making **New Bank of India was merged with Punjab National Bank**
- **In 2019, Vijaya Bank and Dena Bank were merged with Bank of Baroda**
- **In August 2019, following six nationalised banks were merged with other nationalised banks**
  Syndicate Bank was merged with Canara Bank
  Allahabad Bank was merged with Indian Bank
  Oriental Bank of Commerce and United Bank of India were merged with Punjab National Bank
  Andhra Bank and Corporation Bank were merged with Union Bank of India
- **Hence**, at present, the total number of nationalized banks **is 11**
- But, **none of them have 100 percent government ownership**
- After this, government did not allow opening of private banks till the economic reforms

- **Government again started giving license for private banks in 1994**. (**UTI Bank** was the first private bank after the reforms in India)
- **Government also started the process of privatisation of public sector banks** after reforms

Objectives

- **Channelized banking into rural areas.**
- **Check misuse of banking capital from** speculative purposes
- **Shift from class banking into mass banking**.
- **Make banking an integral part of the planning**.

Narasimham Committee

- The Committee on **Banking Reforms under Narasimham** has submitted two reports on banking sector reforms in 1991and 1998.
- The first committee under **Narasimham in 1991** is known as **Committee on Financial System (CFS)**
- He suggested large number of reforms in the banking system in the lines new economic reforms going to be introduced in India during that time
- Narasimham **Committee II recommended 3 tier banking system in India**
  1. **Tier 1: 2 to 3 Banks of International Orientation**
  2. **Tier 2: 8 to 10 Banks of National Orientation**
  3. **Tier 3: Large Number of Local Banks**

Non- Performing Assets (NPAs)

- It is the bad loans of banks
- Definition: those accounts of borrowers who have defaulted **in payment of interest or instalment of the principal or both for more than 90 days.**
- NPAs can be classified into three
  1. **Sub- Standard: remaining NPAs for less than or equal to 12 months**
  2. **Doubtful: Remaining NPAs for more than 12 months**
  3. **Loss assets: Loss has been identified by the bank auditors or RBI inspection, but the amount has not been written off**

SARFAESI Act, 2002

- It is **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002**
- It gives **more power to banks concerning repayment of NPAs from wilful defaulters**
- It gives the bank the power to **use security submitted by the borrower**
- It also empowers banks to sell bad loans to **Asset Reconstruction Companies**

Asset reconstruction company (ARC) or Bad Bank

- They **buy bad loans from banks and collect them.**
- They will have built **in professional expertise in this task**.
- It was recommended by **Narasimham committee I.**
- **ARC 11: 1st asset reconstruction company set up in India.**
- **RBI gives the license for bad banks**

National Asset Reconstruction Company Limited (NARCL)

- NARCL has been incorporated under the Companies Act and has applied to the Reserve Bank of India for a license as an Asset Reconstruction Company (ARC)
- NARCL will **acquire stressed assets** worth about Rs 2 lakh crore from various commercial banks in different phases.
- Public Sector Banks (PSBs) will maintain 51% ownership in NARCL.

India Debt Resolution Company Ltd (IDRCL)

- PSBs and Public Financial Institutes (FIs) will hold a maximum of 49% stake in IDRCL.
- The remaining 51% stake will be with private-sector lenders.

Prudential Norms

It relates to following matters

- **Income recognition:** to ensure that banks takes into account, actually realised income.
- **Asset classification as NPA and Other.**
- **Provisioning for NPA.**
- **Capital Adequacy norms (capital to risk weighted asset ratio, CRWAR)**
- It was implemented in India as per the recommendations of **Narasimham Committee I**

Interest Coverage Ratio

- **The interest coverage ratio may be calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expense during a given period by the company's interest payments due within the same period**
- **The interest coverage ratio is used to see how well a firm can pay the interest on outstanding debt.**
- **this ratio is used by creditors and prospective lenders to assess the risk of lending capital to a firm.**
- **A higher coverage ratio is better, although the ideal ratio may vary by industry.**

Basel Norms

- Banks lend to different types of **borrowers and each carries its own risk.**
- They lend deposits of public and money **raised from the market equity and debt.**
- Because of a variety of risk in the intermediation banks have to keep aside a certain percentage of capital as security against the risk of non-recovery.
- Basel committee provided Basel norms to tackle the risk.
- **Capital Risk Weighted Asset ratio is 11.5 as per Basel III norms.**
- In India, **it was implemented from 2019**
- **In India CAR is decided by the RBI**

Banks of International Settlement (BIS)

- **Faster international monetary and financial cooperation is the aim of it.**
- Banks **for central banks.**
- Provided banking services only to central banks or international organisations.
- Head Quarters is **Basel, Switzerland.**
- Established by **Hague agreements of 1930.**
- It seeks to make monetary policy more predictable and transparent among its 60-member central banks.
- Its main role is to **set capital adequacy requirements to safe-guard banks operations**

Universal Banking in India

- Recommended by **2nd Narasimham Committee in 1998 and khan Committee (1998)**

- Aim- widen and integrate **different financial activities**
- It is a **multipurpose and multi-functional financial supermarket**

Types of Deposits in the Commercial Banks

- **Demand deposits:** they are payable by the bank on demand from the account holder. It is the most liquid form of deposits with the banks
- **Savings Deposits:** Deposits that pay interest, typically at below-market interest rates, that do not have a specific maturity, and that usually can be withdrawn upon demand. It is less liquid than the Demand Deposits
- **Time deposits:** they have a fixed period of maturity. E.g. fixed deposits and recurring deposits. It is not liquid before the maturity period

Prime Lending Rate

- It was a method of fixing the minimum interest rate a commercial bank can charge from its most favoured customers
- Under Prime Lending Rate, there were options to give loans for a lower rate for most trustworthy or most valued customers
- It led to bargaining and misuse of the provision and system was discontinued by RBI in 2010

Base Rate (BR)

Definition

- **Minimum rate of interest that a scheduled commercial bank is allowed to charge from its customers.**
- **No scheduled commercial bank is allowed to charge an interest rate lesser than base rate from any customer**
- It is only for new loans taken or old loans renewed after July 1, 2010.
- It is calculated based on **Cost of Funds, Return on Assets, CRR and Operational expenses of the Banks**
- In 2010, **RBI deregulated the Base Rate and individual banks** were given freedom to fix their Base Rates
- Hence, **all bank had different base rates**

Marginal Cost of funds-based Lending Rate (MCLR)

- It is a new method for computing the lending rates of banks **introduced from financial year 2016-17**
- **Banks will continue to review and publish Base Rate as done earlier**
- Under MCLR, **there would be impact of change in policy rates of RBI over lending rates to customers** (Policy Rates would be discussed in detail in the chapter on Monetary Policy)
- The Reserve Bank of India has made it mandatory for all banks to link all new floating rate loans (i.e. personal/retail loans, loans to MSMEs) **to an external benchmark with effect from 1st October 2019.**
- The move is aimed at **faster transmission of monetary policy rates**.

Overdraft

- An overdraft is an extension of credit from a lending institution that is granted when an account reaches zero.
- The overdraft allows the account holder to continue withdrawing money even when the account has no funds in it or has insufficient funds to cover the amount of the withdrawal.

The National Payments Corporation of India (NPCI)

- The National Payments Corporation of India (NPCI) is an initiative taken by the **Reserve Bank of India (RBI) and Indian Bank's Association (IBA)** to operate the **retail payments and settlement systems in India**
- This organisation was founded **in the year 2008 under the Payment and Settlement Systems Act, 2007**. NPCI has been incorporated as a **'not for profit' company under section 8 of Companies Act 2013.**
- Major objective of NPCI is facilitating an affordable payment system that can help the common people **during financial inclusion.**
- **National Payments Corporation of India (NPCI) is the apex authority for maintaining a nationwide link of all the ATMs in India**

Products of NPCI

- **RuPay Card**

- **National Common Mobility Card: Also known as Rupay Contactless card**
- **Bharat Interface for Money (BHIM)**
- **Unified Payments Interface (UPI)**
- **Bharat Bill Payment System**

BHIM App and the UPI

- **Bharat Interface for Money (BHIM) is a mobile payments application based on National Payments Corporation of India (NPCI) Unified Payments Interface (UPI).**
- **The BHIM app can replace the existing mobile wallets** and can appear as a comparatively reliable option for the bank to bank transfers
- With the BHIM UPI app, the upper limit of a single transaction is Rs. 10,000 and one can transfer Rs. 20,000 in 24 hours.
- The APP guarantees **three-point authentication via mobile number, device ID, and UPI PIN.**
- **Fingerprint-based biometric verification of transactions via Aadhaar will prevent fraudulent transactions.**
- **Resetting UPI pin requires debit card details and OTP SMS to authenticate.**

Teaser Loans

- Teaser loans are those which charge comparatively **lower rates of interest in the first few years after which the rates are increased.**
- RBI is not promoting teaser loans as some borrowers may find it difficult to service the teaser loans once the normal interest rate which is higher than the rate applicable in the initial years, becomes effective.
- **Credit cards with 0% introductory rates** are probably the most commonly known teaser loans

Core Banking Solution

- Core Banking Solutions (CBS) can be defined as a **solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities.**

- It is a networking of a **bank's branches which enables customers to operate their accounts from any branch of the bank on its network regardless of where they open their accounts.**
- **e-Kuber** is an example of the Core Banking Solution of Reserve Bank of India which was introduced in 2012.

Banks Board Bureau

- It was formed in 2016 by the Government of India as a body of eminent professionals and officials to **make recommendations for appointment of whole-time directors as well as non-executive chairpersons of Public Sector Banks (PSBs) and state-owned financial institutions.**
- It was recommended by **'The Committee to Review Governance of Boards of Banks in India, May 2014 (Chairman - P. J. Nayak)**
- **It is an autonomous recommendatory body.**
- **The Ministry of Finance takes the final decision on the appointments in consultation with the Prime Minister's Office.**
- The Bureau has also been assigned with the task of recommending personnel for appointment as **directors in government-owned insurance companies**

State Bank of India

- Founded on 27th June 1806 as bank of Calcutta
- In **1921 it changed name to Imperial Bank of India**
- **In 1955, it got the name State Bank of India**
- In 1956, it was Nationalised
- Its **Head Quarters is in Mumbai**

NABARD: National Bank to Agriculture and Rural Development.

- Headquarters**: Mumbai.**
- Established on **12th July 1982**
- Present chairman: **…………………………………………………**
- Main programme is **credit for agricultural and fiscal inclusion.**
- Recommended **B. Sivaraman Committee (1981)**

- **NABARD is a refinance institution which provides loans to State Governments to contribute to the share capital of cooperative credit institutions**

Land Development Banks

- **Land Development Banks provide long-term loans for farmers (**for a period of 5 years to 20 years**) for buying equipment like pump sets, tractors, etc., and for other development purposes, such as reclamation of land, fencing, digging of new wells, construction of a tank or tube-well, or buying additional land.**
- The Land Development Banks (LDBs) are essentially co-operative institutions**. All the LDBs are registered under the Co-operative Societies Act**

Payment Banks

- Payment Banks are **differentiated banks in India**
- **Differentiated Banks (niche banks)** are banks that serve the needs of a certain demographic segment of the population
- **The objectives of setting up of payments banks is to boost financial inclusion by providing**
  (1) small savings accounts
  (2) payments/remittance services to migrant labour workforce, low-income households, small businesses, other unorganised sector entities and other users.
- It can carry out most banking operations **but cannot advance loans or issue credit cards.**
- **Examples are Airtel Payment Bank and India Post Payment Bank**

Small Finance Banks

- **They are niche banks that focus and serve the needs of a certain demographic segment of the population**
- **The objectives of setting up of small finance banks is to boost financial inclusion by**
  (1) Providing facilities for savings
  (2) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

- **SFBs was recommended by the NachiketMor committee on financial inclusion**
- **The foreign shareholding in the small finance bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.**
- **The small finance banks will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.**
- **SFBs have to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as per RBI norms.**
- **SFBs can do following activities**
  Sell forex to customers.
  Sell mutual funds, insurance and pensions.
  Can convert into a full-fledged bank.
- **SFBs cannot Extend large loans and cannot float subsidiaries and deal in sophisticated products.**

Financial Inclusion

Business Correspondence model advocated by RBI.

- Business **Correspondence enable banks to extend banking services to the locality without setting up a branch inside a building**.
- Banks use **various types of hand-held services**.
- **Aptly nicknamed micro ATMs to authenticate transactions at the Business Correspondence location.**
- **It enables the beneficiaries to draw their subsidies and social security benefits in their villages.**
- **It enables the beneficiaries in the rural areas to make deposits and withdrawals.**

Lead Bank Scheme

- **It was introduced in 1969** with the aim of making **banking services available in the rural India**
- On the recommendation of the **Gadgil Study Group and Banker's Committee the Scheme was introduced by RBI**

- Under this scheme, **individual banks should adopt particular districts for intensive development**
- The scheme was implemented through **'service area approach', with one bank assigned for one area**

Differential Rate of Interest (DRI)

- It is a lending programme launched by the government in 1972
- It makes all Public Sector Banks obligatory to lend 1 percent of total lending per year to the poorest of poor for an interest rate 4% per annum

Priority Sector Lending

- All banks in India have to follow **the compulsory target of priority sector lending**
- It includes **loans to following sectors**
  Agriculture, Small and Medium Enterprises, road and water transport, retail trade, small business, small housing loans (less than 10 lakh), software industries, Self Help Groups (SHGs), education loans, agro-processing, artisans, distressed urban poor, Non-institutional debtors from SCs, STs, women and other weaker sections
- In 2007, RBI included **five minorities also (Buddhists, Christians, Muslims, Parsis and Sikhs)**
- In 2015, RBI has added **medium enterprises, sanitation and renewable energy under PSL**

PSL for Indian Banks and Foreign Banks with more than 20 Branches

- They have to **give 40% of Adjusted Net Bank Credit to Priority sector**
- **18%** must go for **agriculture**
- **12%** must be lent out to the **weaker sections**
- **7.5% to micro enterprises**
- Other areas of priority sector must be covered with the **remaining amount (2.5%)**
- For foreign banks **with less than 20 branches, there is no sub target out of their 40 percent priority sector**
- **RRBs and Small Finance Banks have to give 75% of ANBC to Priority Sector**
- **ANBC is the net bank credit plus investments made by banks in non-SLR**

Pradhan Mantri Jan Dhan Yojana

- **Prime Minister Jan Dhan Yojana stated in 2014, August.**
- Managed by **Ministry of Finance (Department of Financial Services)**
- Its aim is financial Inclusion
- **15 million accounts were opened on inauguration day** and it got a **Guinness World Record.**
- **Ru Pay debit cards** are also issued for account holders s
- Account holders can also get accident **Insurance cover of Rs. 1 lakh.**
- **Mobile banking for poor.**
- **Largest number of accounts are in SBI.**
- **JAM is a common term used for Jan Dhan-Aadhar-Mobile**

Mudra Bank

- Launched in **2015**
- **Micro Units Development and Refinance Agency Bank (Mudra Bank)** aims to fund unfunded non-corporate enterprises
- Under this scheme, **micro units can get upto Rs.10 lakh loan through refinance route**
- The loan would be provided through **public or private sector banks, NBFSc, MFIs, RRBs and District banks**
- There are three categories of services under this scheme
    1. **Shisu:** Loan upto Rs. 50,000
    2. **Kishor:** Loans between 50,000 and 5 lakhs
    3. **Tarun:** Loans between 5 lakh and 10 lakhs
- The scheme covers **traders of fruits and vegetables**, but **it does not refinance agricultural sector**
- **Interest rates on this loan vary for different businesses** based on their respective risk

Non- Banking Financial Companies

- **Non-Banking Financial Companies** are largely referred to as shadow banking system.
- They have **become major financial intermediaries**.

- They do not accept **demand deposits and therefore not subject to the same regulations.**
- Hence, **it does not allow its depositors to withdraw the money from their accounts any time they wish**
- Best example of Non-Banking financial company is **Microfinance Institutions**
- **RBI is the regulator** of Non-Banking Financial Companies
- It is mandatory for NBFCs **to register with RBI as deposit taking companies**
- For registration they **should be a company registered under Companies Act, 1956** and should also have a **Net Owned Fund of Rs. 2 crores**
- Some important regulations for NBFCs are as follows
    1. Allowed to accept or renew **public deposits** for a minimum period of **12 months and maximum period of 60 months**
    2. **Cannot accept demand deposit** (Savings or Current Account)
    3. **Cannot offer interest rates higher than the ceiling of RBI**
    4. **Cannot offer gifts or additional incentives** to the customers
    5. **No insurance for deposits**
- Most of the Non-Banking Financial Companies includes microfinance are providing different services like **Credit facilities, Savings facilities, Insurance facilities, Fund Transfer facilities**

Labels of ATM

- **Bank's Own ATMs:** These are owned and operated by the concerned bank and carry the bank's logo
- **Brown Label ATMs**: These are **owned by a third party** or a non-banking firm. The **concerned bank handle cash processing** and it carries the **logo of the bank** which outsources the services
- **White Label ATMs**: These are owned and **operated by a third party** or a non banking firm. They **do not bear logo of any bank**.
- It carries the **logo of the firm** which owns it (For Example: **TATA Indicash** was first such ATM)
- They serve customers of all banks for a service charge

Some Other Points on Banking

- Largest public-sector bank in India is **State Bank of India**
- First commercial bank in India is Bank **of Hindostan (1770)**
- **Banker of Banks is Reserve Bank of India**
- First Women Bank in India is **Bharatiya Mahila bank (Mumbai) (2013) (In the memory of Indira Gandhi)**
- **Now, it has merged with State Bank of India**

Indian Money Market

- Money market is the **market of the economy where funds are transferred between fund surplus and fund scarce individuals**
- It is also known as **working capital market**
- Financial markets can be classified into two
    1. **Money Market: It** provides short term funds for a period less than 364 days
    2. **Capital Market: It** provides long term funds for a period above 364 days

Indian Money Market

- Money Market in India was first recommended in India by **Chakravarthy Committee (1985)**
- The bleu print for the development of money market in India was made by **Vahul Committee (1987)**
- In Indian money market, money is traded **either between individuals or groups (financial institutions, banks, government, companies etc.)**
- **Trading is done for a discounted rate which is guided by the repo rate of that time** (Repo rate means the rate at which banks can borrow from RBI)
- Borrowing in this market **may or may not be supported by collateral**
- In this market, **close substitutes for money will also be traded (Financial assets which have quick conversion quality into money and carry minimal transaction cost like gold)**
- The need of money market is to **meet day to day shortfall of working capital** for industries
- Then credit would be needed for **short term (days, fortnights or few months)**

- The money market in India can be classified into two: **Unorganized Sector and Organized Sector**

Unorganized Money Market in India

- It exists in India from ancient times. They are:
    1. **Un regulated Non-Bank Financial Intermediaries**
       Eg: **Chit Fund and Nidhis**
    2. **Indigenous Bankers. In India, there were four such bankers**
        a) **Gujarati Shroffs**
        b) **Multani or Shikarpuri Shroffs (Operated in Assam tea gardens and North East India)**
        c) **Marwari kayas**
        d) **Chettiars**
    3. **Money Lenders**
- They are exploitative local money lenders

Organized Money Market in India

- Government started developing the organized money market in **mid 1980s**
- Presently, there are 8 different instruments designed to be used by different categories of businessmen and industrialist
- Following are the 8 different instruments
    1. **Treasury Bills:** it is used **by the Central Government only to fulfill short term liquidity requirements up to a period of 364 days**
       There are five types of Treasury Bills
        a) **14-Day Intermediate TBs**
        b) **14-Day Auctionable TBs**
        c) **91-Day TBs**
        d) **182-Day TBs**
        e) **364-Day TBs**

       In 2001, the government discontinued 2 varieties of 14-day TBs. Hence, only other three TBs are in function now
       TBs provide a **short-term cushion to the government** and also provides **short term investment avenues for banks and financial institutions**

2. **Certificate of Deposits: it was introduced in 1989**

   It is **used by the banks and issued to the depositors for a specified period ranging less than one year**

   Some financial institutions like **IFCI, IDBI, IRBI, IIBI and Exim Bank can issue CDs for 3 years**

3. **Commercial Paper: it was organized in 1990 and is used by the corporate houses** for getting unsecured debt (it should be a listed company with a working capital of minimum 5 crore)

4. **Commercial Bills: it was introduced in 1990**

   Used by **All India Financial Institutions, Non-Banking Finance Companies, Cooperative Banks and Mutual Funds**

5. **Call Money Market:** It is an **inter-bank money market** where funds are borrowed and lent overnight

   The transactions are done **normally for one day**

   The transactions can be done for **a maximum period of 14 days**

   It is also called as '**Overnight Borrowing Market' or 'Money at a Call'**

   The principle of charging interest in this transaction is **that 'longer the period, higher the interest rate'**

   Scheduled commercial banks and cooperative banks operate in this market as both borrowers and lenders while **LIC, GIC, Mutual Funds, IDBI and NABARD are allowed as lenders only and not as borrowers**

6. **Money Market Mutual Fund: It is popular as Mutual Fund**

   It was introduced in **1992 to provide short term investment opportunity to individuals**

   Mutual fund is a **professionally managed investment scheme that brings together a group of people and invest their money in stocks**

   Mutual Funds are regulated by **Securities Exchange Board of India (SEBI)**

7. **Repos and Reverse Repos**

   They are most **dynamic instrument of Indian money market**

   Repo was introduced by **RBI in 1992 and reverse repo in 1996**

   Repo allows banks and financial institutions to **borrow from RBI for short-term (by selling government securities to RBI)**

In reverse repo, **banks and financial institutions purchase government securities from RBI. Here RBI is borrowing form banks and financial institutions**

In 2014, **Urgit Patel Committee has** recommended Term Repo and Term Reverse Repo. It will bring higher stability in interest rates across different loan market in the country

8. **Cash Management Bill (CMB)**

   It was **introduced in 2009**

   The aim is to meet temporary **cash flow mismatches of the government**

   It is issued for maturities less **than 91 days**

   CMBs have generic character of **Treasury Bills**

Inflation

- **Inflation means persistent rise in price of goods and services.**

Types of Inflation

1. **Creeping Inflation:**
   - Inflation which increases gradually from 0% to 10%. It is also called as **Low Inflation**
2. **Might lead to galloping inflation**
   - An inflation between 10% to 20%. if not controlled it will lead to Runaway inflation
3. **Runway inflation**
   - **More severe inflation.** It is also called as **Galloping Inflation, hopping inflation, jumping inflation**
   - When inflation becomes out of control, it is **called as Hyper Inflation**
   - Monthly inflation of **20% or 30% more leads to a monetary collapse.**

Hyper-inflation

- This is large and accelerating inflation which might **have annual rates in million or even trillion**
- **Prices shoot up in a short span of time**
- **Germany** experienced it after First World War in 1920s

4. **Demand Pull Inflation**

- **it is Caused by increase in demand due to increased private and government spending.**
- Rises **as real GDP rises and unemployment falls**
- **Too much money chasing too few goods**

5. **Cost push inflation/ supply-shock inflation**

- It is Caused by **reduced supplies due to increased price of inputs**.
- For example, crude prices globally have gone up causing supply constraints.
- Higher cost of production also results in higher prices. For example, higher cost of crude, higher cost of capital increase in prices of imported raw materials.

6. **Structural Inflations**

- A type of persistent inflation caused by **deficiencies in certain conditions in the economy.** For Example, agriculture in backward sector is unable to respond to people's **increased demand for food.**
- Inefficient **distributors and storage facilities leads to inflation**
- It is also known as **Bottleneck Inflation**

7. **Core Inflation**

- It shows price rise in all goods and services **excluding food and energy**. It is mostly used in **western countries** where inflation of food and energy is largely neglected

Related concepts

- **Deflation**: General fall in the level of price.
- **Disinflation:** Reduction in the rate of inflation.
- **Stagflation**: Inflation and rising unemployment.
- **Reflation:** Attempt to raise price to counteract deflationary pressures and to reduce unemployment
- **Open Inflation:** Government does not attempt to prevent price rise.
- **Repressed Inflation:** When government interrupts a price rise through price controls and rationing
- But price will rise on the removal of those controls.
- It also results in evils like black marketing and economic diversion

- **Inflation Targeting:** The announcement of an official target range for inflation is known as inflation targeting.

Inflationary Gap

- The **excess of total government spending above the national income** (fiscal deficit)
- Government **intends to increase production, but it eventually leads to price increase**

Deflationary Gap

- The shortfall in the total **spending of the government (Fiscal Surplus) over the national income**
- It is a situation **of production more than the demand**
- It is also **known as output gap**

Inflation Spiral

- It is a situation in which **wages press prices up and prices pull wages up**
- It is also **known as wage price spiral**

Inflation Accounting

- A firm **calculating the profit after adjusting the effects of the inflation**
- Such profits are **the real profit of the firm**

Inflation Premium

- The bonus brought by the inflation to the borrowers is known as the inflation premium
- The interest paid by the borrower during the inflation is known as nominal interest
- Rising inflation premium shows the depleting profit of the lending institutions

Phillips Curve

- It is a **graphic curve which advocates the relationship between inflation and unemployment**
- There is a **trade-off between inflation and unemployment**
- It means an **inverse relationship between them**
- When inflation increases the unemployment decreases
- Lower the inflation, higher the unemployment

Measurement of Inflation

WPI (Wholesale Price index)

- Measures change **in price of a selection of goods at wholesale.**
- It excludes **GST**
- It is the **major measurement of inflation in India at macro level**
- It is **available every month** and published **on 14th day of every month**
- Base year is **2011-12 (Revised in 2017 from earlier 2004-05)**
- **Total number of commodities in the basket for measuring WPI is 697 (Revised in 2017 from earlier 676)**
- The revision in the base year and basket was done as per the recommendations of **the Working Group for Revision of WPI under Prof. Abhijit Sen**
- It is prepared by the **office of Economic Adviser in the Department of Industrial policy and promotion under the Ministry of Commerce and Industry**
- WPI **does not include cost of services**

CPI (Consumer Price Index)

- Measures **changes in price paid by the consumer.**
- It is the used for measuring **food inflation in India**
- **As consumers have wide choices in India, there are four different sets of CPI**
- **CPI for Industrial Workers (IW).**
- **CPI for Agricultural Labourer (AL).**
- **CPI for Rural Labourer (RL).**
- **CPI (Rural/Urban/Combined).**
- **Of these, the first three are compiled by the Labour Bureau in the Ministry of Labour and Employment. Fourth is compiled by the Central Statistical Organisation (CSO) in the Ministry of Statistics and Programme Implementation.**
- The base **year is 2012**
- It is **available weekly**
- It **includes services also**
- **RBI uses CPI (combined) released by CSO for inflation purposes**

- Major cause of food inflation in India is the increasing incomes, the consumption patterns of the people have undergone a significant change.
- The food supply chain has structural constraints

Causes of Food Inflation in India

- Drought duet to monsoon failure and the loss of crops
- Flood and loss of crops
- High Income of the people and change in consumption pattern
- Large number of middlemen in the food supply chain (Structural inflation)

Base Effect

- The base effect refers to **the impact of the rise in price level (i.e. last year's inflation) in the previous year** over the corresponding **rise in price levels in the current year (i.e., current inflation)**

Problems of high inflation

- Low-income **groups are particularly hurt.**
- **People with fixed income** (Example: pensioners and students) will worse off.
- It reduces **purchasing power of money.**
- **With the declining value of money people would be more inclined to spend than save**.
- **Increasing uncertainty may discourage investment and saving**
- Reduces **saving and pushes up interest rate.**
- **Depreciation of currency and makes imports costlier.**
- **Depreciation of money reduced the value of money for debtors**
- **Inflation discourages export as domestic sales are attractive**.
- It may also **erode external competitiveness of domestic product**. As a result, **Balance of Payment problems can be caused.**
- **Inflation tax happens:** when government borrows and spend the cash held by people erodes in value due to inflation.
- **Strikes can take place** for higher wages which can cause a wage spiral

Measures to Control Inflation

- **Fiscal, monetary, supply side and Administrative measures** can be used to control inflations to ideal/optional rates.
- **Fiscal measures** include Reduction in individual taxes
- **Monetary Measures include** changes in rates and reserve requirements.
  Open market operations can control prices under normal conditions.
  Sterilization through government bond transactions like Market Stabilization Bonds.
- **Supply side factors include making goods available**
- **Administrative Measures needed are** implementing **de-hoarding and anti-black-marketing measures.**
- **Wage and price controls can also be used**

Fiscal System

Definitions

- It is also called as Public Finance
- **Arthasastra of Kautilya** is one of the oldest texts in India which mentions about public finance
- Fiscal policy is the Policy of government concerned with **raising revenue** through taxation and deciding as the amount and purposes of **government spending.**
- **Government policy for dealing with the budget** especially with taxation and borrowing.
- **Means by which a government adjusts its level of revenue spending** to monitor and influence a nation economy.
- Fiscal policy of the government is declared through **Annual Financial Statement or Budget.**

Budget

- **Article 112** of the constitution discusses the budget
- It is the **annual financial statement** of the government and hence **not considered as a bill**
- The budget is prepared by the **Department of Economic Affairs in the Ministry of Finance**

- Conventionally, it was presented by the Finance Minister in the **last working day of February**, but in 2017 the government changed the date into **first working day of February**
- **Economic Survey explains the achievements of last year's budget.** It is presented in the parliament before the presentation of the budget

Main channels of fiscal resources

- **Taxes, user charges** (power, water, transport), **disinvestment** and **borrowings** (internal and external)
- Receipt and expenditure are divided into **revenue and capital accounts (expenditure into plan and non-Plan)**
- **The division of expenditure into plan and non-plan has been discontinued by 2017-18 Budget**
- Fiscal system **deals with quality of public finances also i.e., how money is raised and how it is used; wastefully or productive**

Developmental and Non-Developmental Expenditure

- **Developmental expenditure includes all expenditure of productive nature** such as establishment of new factories, dams and bridges
- In other terms, we can call it as **government investments**
- It is also known as **Plan Expenditure (from 1987-88 Budget)**
- **Non-Developmental expenditure** is the consumptive kind of expenditure like **paying salaries, pensions, interest on loans, subsidies and defence**
- It is also known as **Non-Plan Expenditure (from 1987-88 Budget)**
- The change of term into Plan and Non-Plan expenditure from 1987-88 budget was suggested by **Sukhomoy Chakravarty Committee**
- **In 2017 Budget, the finance Minister scrapped this classification of expenditure**
- It was suggested by **Dr. C Rangarajan Committee** appointed in 2011
- He suggested that public expenditures should be redefined to **'Capital and Revenue Expenditure'**

Revenue Receipts

- **Revenue Receipts:** recurrent receipts include taxes and non-taxes resources.

- **Taxes: income tax, corporation tax, GST, custom duty etc.**
- **Non-tax revenue includes user charges, interest receipts, dividends, profits, fiscal services like printing money and stamps etc.**

Revenue expenditure

- Essentially **non-plan expenditure that does not create asset.**
- **Interest payment, defence management, subsidies, grants of union government to state governments and public administration**,
- Plan components like **MNREGA also**

Capital Account Receipts

- Any receipt which brings a liability or loss of asset
- Recoveries **of loans made by centre to states, UTs and PSUs.**
- **Fresh borrowings disinvestment and etc.**

Capital Account Expenditure

- **Loans made to states, UTs and PSU, loan repayment by the government and other liabilities of the government**
- Plan expenditure **for asset creation in infrastructure, capital expenditure on defence,**

Goals of Fiscal Policy

- **Growth, equality, promotion of small scale industries, encouragement to agriculture, location of industries in rural areas, labour intensive growth, export promotion, development of sound social and physical infrastructure.**

Definition of Deficits

Revenue Deficit

- **Difference between revenue receipts and revenue expenditure.**
- **Revenue expenditure:** consumption and non-development. But in India flagship programmes like NREGA is Revenue Expenditure.
- FRBM (Fiscal Responsibility and Budgetary Management Act, 2003 demanded revenue deficit should be zero by the end of 2008-09.

- Objective of this goal is to fund for consumption from government's own resources and not borrowing.
- If FRBM implemented well there would have been revenue surplus from 2009-10.
- But the financial crisis in 2008 has prevented the achievement of this target
- **Revenue deficit at present is…………………………………………………………**

Effective Revenue Deficit

- The term was introduced in **2011-12 Union Budget**
- Some money out of the central grants to state governments may be spent for asset creation
- **Effective revenue** deficit **excludes such grants to states for creation of capital assets**

Fiscal Deficit

- **Difference between what government earns and total expenditure**.
- **Earns: revenue receipts and non-debt creating capital receipt.**
- **It amounts to all borrowing of the government**
- Fiscal deficit: total expenditure of a government in a budget – (revenue receipts and non-debt creating capital receipts).
- Fiscal deficit at present is……………………………………………………………

Budget deficit

- Difference between total **budgeted receipts and expenditure**.
- **Abolished in 1997**.
- **Fiscal deficit mirrors health of government finances most accurately than Budget deficit.**
- **That portion of the borrowings for which government relies** on printing money by RBI.

Monetised Deficit

- **Borrowings made from RBI through printing money.**

- Only when government cannot borrow from banks and FI, due to pressure on interest rates.
- It corresponds Budget Deficit.

Primary deficit

- The difference between Fiscal deficit and **interest payment**.
- To assess the progress of government in its fiscal control efforts.

Deficit Financing

- **Financing of gap between government receipts and expenditure**
- **Deficit financing may be different forms like external aid, external borrowings, internal borrowings, printing currency etc.**
- Gap can be deliberate because government wants to spend on welfare and infrastructure or due to bad finance of government.
- Government cannot borrow above a certain level from market as it may **push up interest rates and crowd out private investment.**
- RBI prints money when the resources from taxes, user charges, Public Sector Enterprises, public Borrowings, small scale borrowings and others are not enough.
- **High powered money or Reserve Money is money printed by RBI.**
- **Deficit Financing was dropped with Budget Deficit in 1997.**
- FRBM disallows RBI printing money to finance government deficit in normal conditions.
- Keynesian stimuli include massive borrowing to arrest slowdown and stimulate growth.
- That is money creation is called monetary expansion.

Fiscal Responsibility and Budgetary Management Act (FRBM), 2003

- It was passed to provide support of a **strong institutional and statutory mechanism to control the deficits**
- **Fiscal deficit to be reduced to the 3% of the GDP by 2008**
- Government of India should eliminate **revenue deficit by 2008 and build up adequate revenue surplus**
- Revenue Deficit to be cut 0.5% per year and Fiscal Deficit to be cut by 0.3% per year

- Government of India should not borrow from the RBI **except by the Ways and Means Advance**
- **Finance Minister to make a quarterly review of trends in receipts and expenditure in relation to the budget and place the review before the parliament**
- **Following 3 documents should be presented along with the budget**
  1. **Fiscal Policy Strategy Statement**
  2. **Medium Term Fiscal Policy Statement**
  3. **Macroeconomic Framework Statement**

Escape Clause in the FRBM Act

- **Escape clause refers to the situation under which the central government can flexibly follow fiscal deficit target during special circumstances.**
- **This terminology was innovated by the NK Singh Committee on FRBM.**
- **The Act exempts the government from following the FRBM guidelines in case of war or calamity**

Large fiscal deficit causes following concerns

- **Macroeconomic instability due to inflation**.
- **Corporate sector is crowded out** because inadequate fund in market as government borrowing increases.
- **Interest rate is high** because of pressure on money available in market after government borrowing.
- **If funding is by RBI monetisation, it causes inflation**.
- **Inflation may mean less saving**, less investment **and hurts the sustainability.**
- **It will require higher taxes in future**, i.e., intergenerational disparity as said by FRBM act.

Kelkar Task force to implement FRBM Act 2003 recommended **re-examination of plan and non- plan difference (it was discontinued from 2017-18 Union Budget**

Public debt and other liabilities

- **Internal debt:** Borrowing inside the country. For example, market loan and borrowing from RBI.
- **External Debt:** loans from foreign country and Foreign Institutions and NRI deposits.

- **In India, private sector has borrowed more than half of the total external debt**
- **Other liabilities:** outstanding against the various small saving schemes, provident funds etc.
- It's justified as government does not have adequate resources and taxation cannot be beyond a level.
- It should be used for welfare activities.

Internal Debt

- Loan raised by government **in open market through T-bills and government securities**.
- **Special securities issued to RBI**
- Various **bonds: For Example, oil bonds and fertilizer bonds.**
- **Money sucked in by market stabilization Bond (It was introduced in2004)**
- **Other liabilities:** outstanding against small savings, provident funds, deposits under special deposit schemes.
- **Debt trap:** government borrows to service the debt already created.

Zero Base Budgeting

- **10th plan approach paper says that Zero Base Budgeting** will be followed .
- First taken up in **1987 in Union Budget.**
- Many states applied it like Rajasthan and Maharashtra.
- Maharashtra called it **development-based budget**.
- **Definition: a close and critical examination is made of existing government programs.**
- **Increase funds to high priority items.**
- **Eliminate outdated items**
- **Reduce funds to low priority items.**
- Programs are **discarded if the cost benefit ratio is below the prescribed norms.**

Fiscal Divergence

- A situation **where inflation pushes income into higher tax brackets and it is called as bracket creep.**
- It results in increase in income taxes but no increase in real purchasing power.

Fiscal Neutrality

- When **net effect of taxation and public spending is neutral neither stimulating nor dampening demand.**
- Tax **revenue equals total spending.**

Crowding Out

- If **government borrows excessively it leads to shrinkage of liquidity in market**.
- Then Interest Rates go up and **private investment is crowded out because of 2 reasons.**
- **Less liquidity and interest rate are high**

Pump Priming

- **Deficit financing and spending by government on public work** to revive economy during recession- it is a counter cyclical measures.
- **It can raise purchasing power of people and stimulate economy.**

Emerging Markets

- **Definition: countries that are restructuring their economics along market oriented lines.**
- Offer a wealth of opportunities for trade technology transfer and FDI.
- Four biggest country: China, India, Indonesia, Brazil.

Characteristics

- Regional power Houses.
- They are transitional societies.
- World fastest growing economics.
- Critical participation in worlds major political economic and social affairs. For Example, G20.

NK Singh Panel on Fiscal Deficit or FRBM Act

- It is the latest **committee appointed by the Ministry of Finance on implementation of FRBM Act and Fiscal road map**
- Submitted report on **January 23, 2017**
- It was composed **chairman and four members**
- Members were **Urgit Patel, Sumit Bose, Aravind Subrahmaniam (CEA) and Rathin Roy**
- Major recommendations are as follows
  1. **Combined debt to GDP ratio of the centre and states** together should be **60 percent of GDP by 2023**
  2. Out of this, there is a **sub target of 40 percent for the centre and 20 percent for states**
  3. **Reduce fiscal deficit to 2.5** percent of GDP **by 2023**
  4. **Reduce revenue deficit to 0.8** percent of GDP by the year **2023**

Financial Stability and Development Council

- The Financial Stability and Development Council (FSDC) is an executive council under the **Ministry of Finance constituted by the Executive Order in 2010.**
- **The Raghuram Rajan committee (2008)** on financial sector reforms first proposed the creation of FSDC.
- **It is chaired by the Finance Minister** and its members include the heads of all **Financial Sector Regulators (RBI, SEBI, PFRDA & IRDA), Finance Secretary, Secretary of Department of Economic Affairs (DEA), Secretary of Department of Financial Services (DFS), and Chief Economic Adviser**.
- In 2018, the government reconstituted FSDC to include the **Minister of State responsible for the Department of Economic Affairs (DEA), Secretary of Department of Electronics and Information Technology, Chairperson of the Insolvency and Bankruptcy Board of India (IBBI) and the Revenue Secretary.**
- FSDC **sub-committee is headed by the Governor of RBI**.
- The Council **can invite experts to its meeting if required.**
- The objective of FSDC is to str**engthen and institutionalize the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.**

- It also intends to **monitor macro-prudential supervision of the economy. It will assess the functioning of the large financial conglomerates**.

Stock Market in India

Definition

- A platform for trading shares either physical or virtual.
- Originated in **1602 at Amsterdam stock exchange.**
- **Biggest stock market in the world is the New York Stock Exchange followed by Nasdaq and Japan Stock Exchange respectively**
- Investors buy and sell through brokers.
- Stocks mean capital raised by a corporation through sale and issuance of shares.
- **Commonly stock and share are used interchangeably**
- **Market capitalisation** means the aggregate value of a corporation's issued shares at current market price.

Stock exchange in India

- First company which issued shares in India was **VOC or Dutch East India company (1602)**
- **Today India is the 3rd largest investor base in the world after USA and Japan**
- India has a total number of **23 stock exchanges**

Important stock exchanges

- **Bombay Stock Exchange and National Stock Exchange are in Mumbai.**

Bombay Stock Exchange

- Oldest in Asia. Located at **Dalal street, Mumbai**.
- Established **in 1875 by Premchand Roychand**
- **Largest securities exchange in India** with more than 6000 listed Indian companies.
- **10th in the world** with market capitalisation **of $2.3 trillion.**
- Overall performance is measured by **BSE SENSEX or BSE 30 INDEX which were introduced in 1986**
- **BSE30 composed of most developed 30 stocks**. They are selected based on market capital, liquidity, trading frequency and industry.

- Automatic online trading system of **BSE is known as BOLT**
- In 2005, status of BSE changed from an **Association of persons (AoP) to a full-fledged corporations and name also changed into BSE LTD.**

SENSEX/Sensitive Index

- **Largest and most active 30 Companies** are selected from Various Section
- **Base Year is 1978-79=100**
- Inclusion of a company is based **on market capitalisation**
- **Revised Periodically**

National Stock Exchange

- **In 1991, Manohar J Pherwani committee recommended it**
- **In 1992, Government of India authorised IDBI to established it**
- **In 1993, it was recognised as a stock exchange**
- In 1994, **commenced operation as a stock exchange**
- **It is based in Mumbai.**

Indexes of NSE

- **Standard and Poor's CRISIL NSE Index 50**
- **S&P CNX Nifty or Nifty 50 is another important index**
- Nifty is the **leading index for large companies on NSE**
- **Nifty 50 stock index has companies from 12 sectors**.
- **CNX Nifty Junior 50 is for junior companies on NSE**.

Inter Connected Stock Exchange

- Promoted by **12 regional stock exchanges**
- **The aim is to set up a new national level stock exchange**

Indonext:

- **BSE and Federation of India Stock Exchange which represents 20 regional Stock Exchanges promoted it.**
- **It has more than 300 companies listed on it.**

Over the counter exchange of India (OTCEI)

- Under **companies act 1956, it's a public limited company**
- **Listing of small and medium companies** are done here.
- Promoted by **Unit Trust of India (UTI), IDBI, IFC and others**
- It is **not functional now as SEBI de-recognized it in 2015**

NASDAQ: National Association of Securities Dealers Automated Quotation System.

- It is the **stock exchange in the US**
- **Electronic stock means market that uses a computerised** system to provide brokers and dealers with price quotes.
- **First electronic stock market in the world**
- Run by **National Association of Securities Dealers**
- **Many of stocks traded are in technology field**

Dow Jones Index

- New York **Stock Exchange index**
- **Reflects movement of world's largest stock market**
- Composed **30 most traded stocks of New York Stock Exchange**
- It is the largest stock market in the world

Securities Exchange Board of India (SEBI)

- **Established in 1988.**
- Statutory **basis in 1992 by SEBI Act 1992**

Functions of SEBI

- **Regulate working of Stock Exchanges and intermediaries** like brokers and merchant brokers.
- **Accord approval for Mutual Funds**
- **Register Financial Institutions as investors**
- Section 11(1) of SEBI Act tells that **it shall be the duty of the board to protect the interest of investors in securities**
- **Promotes investors education and intermediaries training**.

- **Prevent fraudulent and unfair trade practices**, with imposition of monetary penalties.
- **Regulates substantial acquisition of shares** and takeover of company
- **Conducts audit and inquiries**
- Head office in **Mumbai**
- Reginal offices: **New Delhi, Calcutta and Chennai**

FMC (Forward Market Commission)

- **Head Quarters Mumbai.**
- It functions under **Ministry of Consumer Affairs and Public distributions**.
- Set up by **Forward Contracts Regulation Act ,1952**

Functions of FMC

- **Monitors discipline working** of the commodity exchanges
- **Recognises an Exchange and withdraw recognitions**
- **Collects and publishes information regarding trading condition** in respect of goods.
- **Make inspection of records of any recognised associations.**

Mutual Fund

- **It is a financial intermediary which raises money from investors to invest in capital market**
- It **performs these functions for a fee**
- **Two types of Mutual Funds are there**

Hedge Fund

- Investment **fund open to only limited investors**
- **It is mostly unregulated**
- Not allowed legally in India.
- **Some are registered as FIIs**
- **It invests in anything like land, real estate and stocks**

Dematerialisation

- It is the process of converting physical shares into electronic shares

Equity

- **Common Stock and Preferred Stock** are shares issued by companies.
- **Funds provided to business by sale of stock.**

Share

- A certificate **representing ownership of the company that issued it.**
- Can yield dividends and entitle to vote.
- Company may be listed in **Stock Exchange**.
- Other names are **stock or equity.**

Bond

- A debt instrument issued at least for more than one year.
- **Purpose: raising capital by borrowing.**

Debenture

- It is **debt not secured by specific asset of corporation.**
- Otherwise it is called **as unsecured debt.**
- It can earn an interest.

Market Signals

- **Bear: Investors believe market will go down. It is pessimistic**
- **Bull: Investors believe market will go up. It is optimistic market**

GILT

- **Bond Issued by Central Bank of a Government on Behalf of Government**
- RBI does this In India.
- Other Name: **Treasury Bills.**
- **Gilt Edged Market: Market for Government Securities**.

Blue Chip

- **Shares of most valuable profit making and usually dividend paying companies.**
- Liquid in market (always in demand.)

Treasury Stock

- Company **buy their own stock and put it in treasury**
- **It is called as buy back.**
- If company makes large buy back, it is known as creeping acquisitions.

Venture Capital

- Venture capital is a **form of private equity and a type of financing that investors** provide to start-up companies and small businesses that are **believed to have long-term growth potential.**
- Venture capital generally comes **from well-off investors, investment banks and any other financial institutions.**

Ponzi schemes/ Pyramid Scheme

- **A fraudulent investment scheme that pays high returns** to investors and provides higher to those who join later.
- **Paid from investors own money, not from profit**
- Destined to collapse.
- Named after **Charles Ponzi** who became notorious by this activity

Sweat Equity

- **Definition:** shares given to a company employees or directors on favourable terms in recognition of this work.
- Issued at discount.

QFIs (Related to FII)

- An individual group or association resident in a foreign country that is complaint with **Financial Action Task Force (FATF) standards.**
- Till 2012, they invested in India through FIIs registered with SEBI.
- Now they are allowed to invest directly in India.

Participatory Notes

- Participatory Notes or P-Notes (PNs) are financial instruments **issued by a registered foreign institutional investor (FII) to an overseas investor who wishes to invest in**

Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India (SEBI).

Taxation System

Tax

- A payment compulsorily collected by government from individuals or firms.
- Two types:
- **Direct tax:** Burden of tax payment falls on the individual or the company paying the tax. For Example, income tax, corporate tax and wealth tax
- **Indirect tax:** Burden of such tax is not born by the individual or firm paying it. It is passed on to customer. For Example, GST, customs duty and previous sales tax and excise duty.
- **Highest share of tax in India at Present is from GST (28.5%)**
- Second highest is **Corporate Tax (28.1%)**
- Third is the personal **income tax (26.3%)**

Taxation system in India

- **Tax is levied either by centre or state**

Direct and indirect taxes in India- The changing scenario

- In 1990-91, direct tax was 33% percent of total tax collection and indirect tax was 66%
- In 2022, share of **direct tax** in total tax collection is **54.4% and indirect tax is 45.6**
- General level of prosperity is increasing, then more people pay tax
- Companies are growing so corporate tax is increasing.
- Stock market and wealth built up also contribute to **direct tax by way Capital gain tax and income tax.**

Service Tax

- First **imposed in 1994.**
- **Now it merged with GST**
- Widening service tax base was the initial step towards GST.
- Major services currently taxed: telephone, insurance brokerage, banking and financial services, courier, port services etc.

- Minor services on which recently imposed- beauty parlour, pandals, Tent house services, dry-cleaning, cable operators etc.
- Maximum collected from **telephone services**

Service Tax and Indian constitution

- **Tax on services is not mentioned in any list of 7th Schedule**
- **Entry 97 of UL empowers union government to make laws** on any other matter not mentioned in **SL OR CL.**
- Hence, tax on services which is not mentioned on any of the three lists was levied by **central government with exercising the powers under entry 97 of UL**

Goods and Service Tax

- Introduced in India from July 1, 2017
- It is a **multi-point sale tax with set off for tax paid on purchases of inputs**
- **No cascading (tax on tax) effect**
- There is **a deduction or credit mechanism for taxes paid for the inputs**
- **The GST has a three-tier system**

  Central GST (CGST): to be administered by the Centre

  State GST (SGST) to be administered by the State Governments

  Integrated GST (IGST): **To be levied on inter-state trade and administered and collected by the centre. The proceeds would be transferred accordingly**
- ## Constitution Amendment for GST

  Constitution 101st Amendment Act was passed. It was also ratified by more than half of the states
- ### Key Features of Constitution Amendment

  Concurrent Jurisdiction for levy and collection of GST by the centre and states

  Centre would levy and collect Integrated GST and assign to the state accordingly
- ### Exemptions from GST

  Alcohol for human consumption (State Excise+ VAT)

  Electricity: It will have electricity charge only

  Petroleum crude, high speed diesel, Petrol, Natural Gas and Aviation fuel would be brought under GST on a later date

- **GST Council (Art. 279A)**

  Composition: Union Finance Minister (Chairman)

  Union Minister **of State for Revenue**

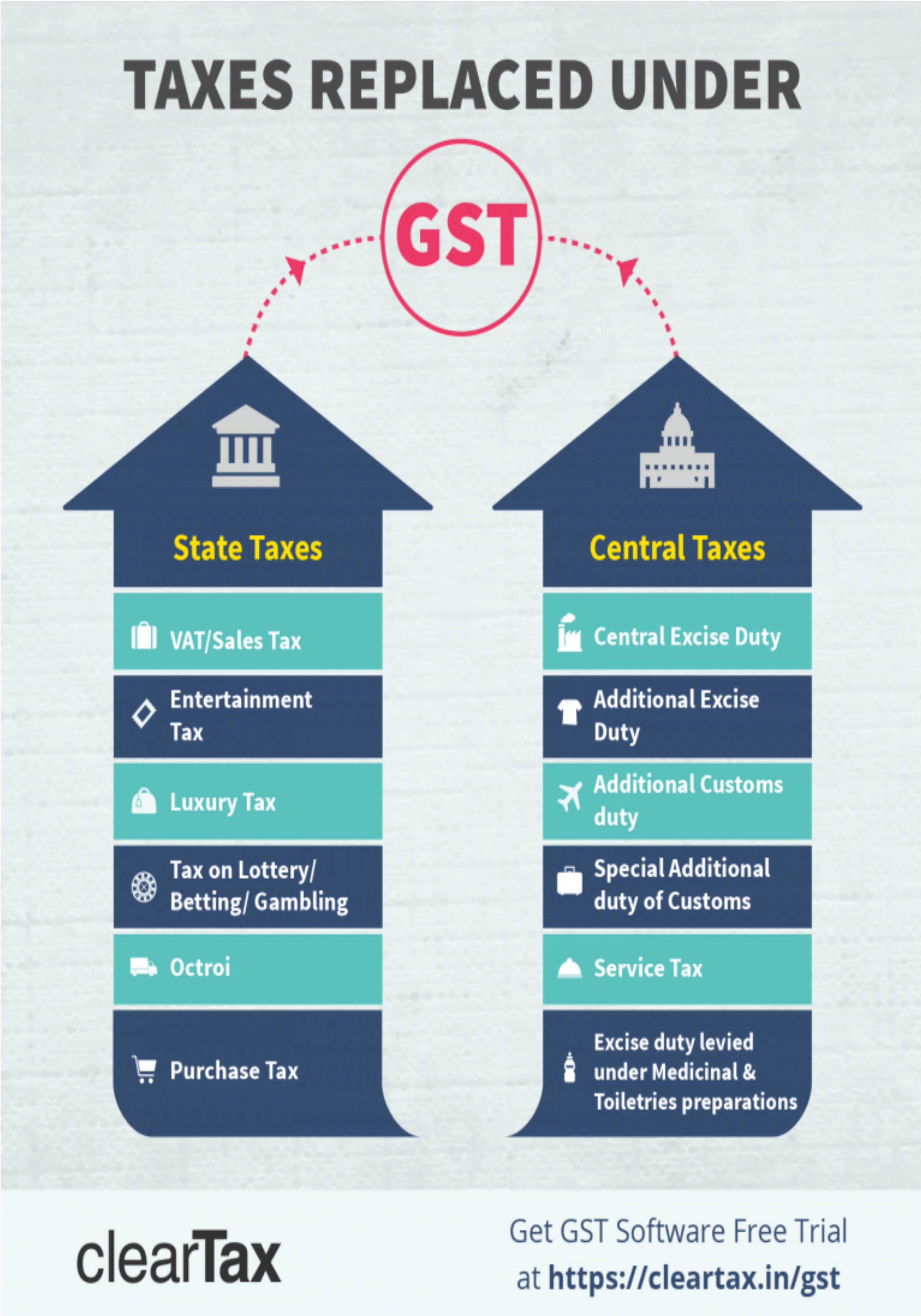
  Finance Ministers of States

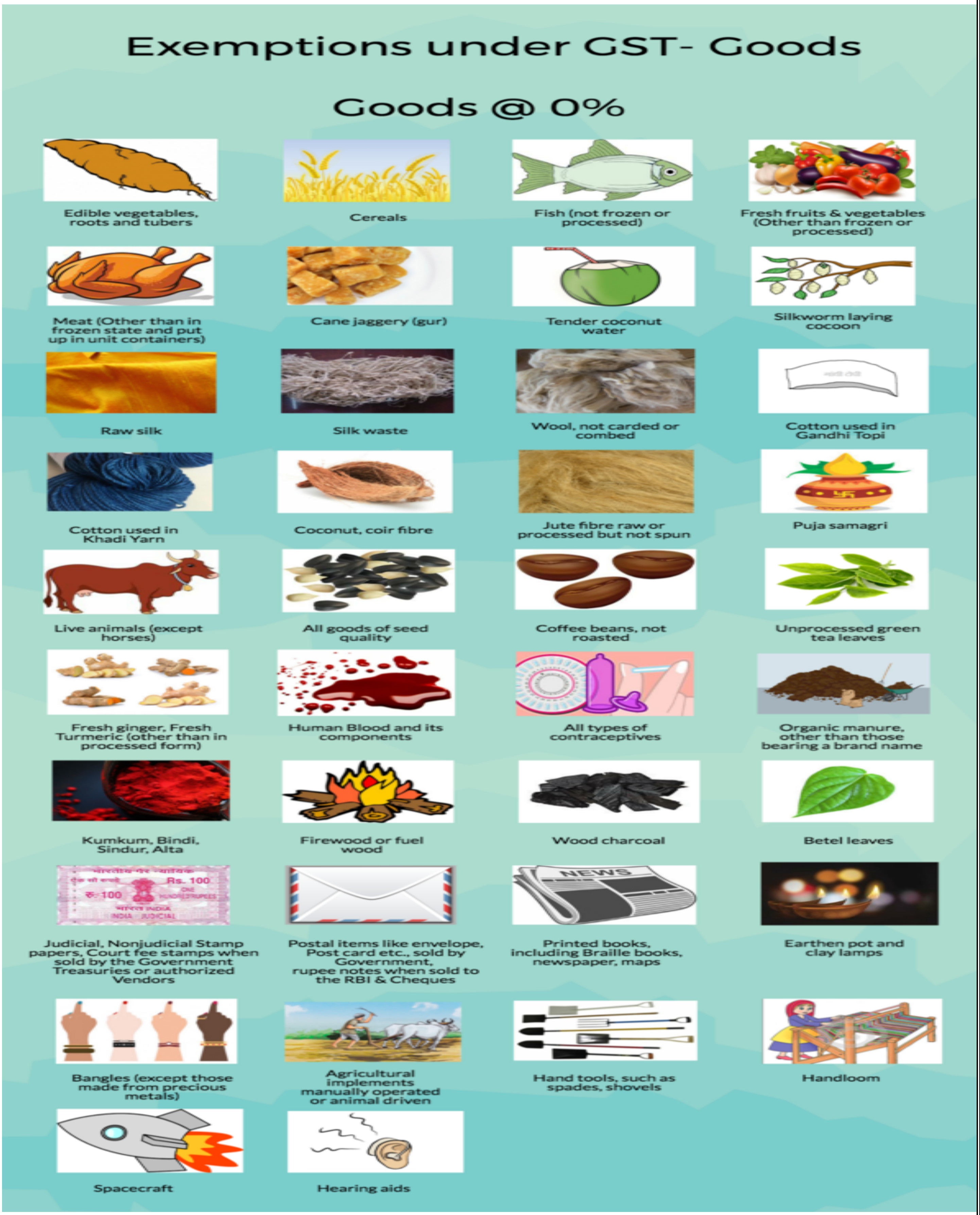
  Finance Minister **of state by rotation will be the deputy chairman**

  Quorum to hold the meeting is 50%

  Decision can **be taken by 75% of the votes of members present and voting**

  Weightage of votes**: 1/3 is for centre and 2/3 is for all states collectively**


TAXES REPLACED UNDER
GST
State Taxes
VAT/Sales Tax
Entertainment Tax
Luxury Tax
Tax on Lottery/ Betting/ Gambling
Octroi
Purchase Tax
Central Taxes
Central Excise Duty
Additional Excise Duty
Additional Customs duty
Special Additional duty of Customs
Service Tax
Excise duty levied under Medicinal & Toiletries preparations
clearTax
Get GST Software Free Trial
at https://cleartax.in/gst


Exemptions under GST- Goods
Goods @ 0%
Edible vegetables, roots and tubers
Cereals
Fish (not frozen or processed)
Fresh fruits & vegetables (Other than frozen or processed)
Meat (Other than in frozen state and put up in unit containers)
Cane jaggery (gur)
Tender coconut water
Silkworm laying cocoon
Raw silk
Silk waste
Wool, not carded or combed
Cotton used in Gandhi Topi
Cotton used in Khadi Yarn
Coconut, coir fibre
Jute fibre raw or processed but not spun
Puja samagri
Live animals (except horses)
All goods of seed quality
Coffee beans, not roasted
Unprocessed green tea leaves
Fresh ginger, Fresh Turmeric (other than in processed form)
Human Blood and its components
All types of contraceptives
Organic manure, other than those bearing a brand name
Kumkum, Bindi, Sindur, Alta
Firewood or fuel wood
Wood charcoal
Betel leaves
Judicial, Nonjudicial Stamp papers, Court fee stamps when sold by the Government Treasuries or authorized Vendors
Postal items like envelope, Post card etc., sold by Government, rupee notes when sold to the RBI & Cheques
Printed books, including Braille books, newspaper, maps
Earthen pot and clay lamps
Bangles (except those made from precious metals)
Agricultural implements manually operated or animal driven
Hand tools, such as spades, shovels
Handloom
Spacecraft
Hearing aids

Concepts Related to Taxation

Tax Indices

- **The entity on whom tax is imposed.**
- It is mostly the company who pay the taxes.
- It is different from tax burden. Tax burden is on the people who actually pay the tax,
- For example, government increase tax on oil. Oil companies may pass it to private customers.
- Here tax indices are on companies and tax burden is on customers.

Tax Burden

- **Who actually pay taxes**.
- **Tax can be absorbed by seller or by the buyer** (in the forms of higher prices) or by a third party like employees (in the form of lower wages).

Tax base

- **The value of goods services and income on which tax is imposed**
- **Income tax:** tax base is taxable income. Some kinds of income like saving are excluded from taxable income.
- **Sales tax:** value/Volume of items subject to tax. Some items like essential goods are not taxable.

Tax rate

- **How much tax is due from each source**
- Some tax systems have high rates and narrow base allowing generous deduction of business expenses.
- Other systems have wide base few exemption and lower rates.

Tax Shelters

- **A technique which allows one to legally reduce or avoid tax liabilities.**

- For Example, tax Payer invest his income in a particular kind of investment that gives tax concessions.

Angel Tax

- **A type of capital gain tax imposed when unlisted companies (start-ups) receive funding, which is higher than their fair market value of the shares sold.**

Tax avoidance and Tax evasion

- **Avoidance:** save or invest in a manner that leads to reduction in taxable income.
- It is lawful to take all available tax deductions.
- **Evasion:** it is failing to report income or improperly claiming deductions. It is a punishable offence.

Hidden Taxes

- **Taxes conceded in the price of article that one buys**
- **Other name: Implicit tax**
- It is the most common form of tax. For Example, Indirect taxes and import duties.

Proportional, Progressive and regressive tax

- **Proportional:** Tax as a percentage of income is constant over all income levels.
- **Progressive:** tax as a percentage of Income, rises as income rises (Income tax slabs in India)
- **Regressive:** Tax, as a percentage of income fall as income rises.

Ad Valorem

- **Latin word: meaning "According to worth"**
- Taxes levied on the basis of value.
- Taxes in real estate and personal property are Ad valorem.
- For Example, Luxury goods are taxed higher even if they weigh or number the same as ordinary goods

Excise Duty

- Tax levied on the manufacture of goods.

Custom duty

- Imposed by central government when goods are imported or exported
- Peak customs duty is 10%.

Negative income tax

- **For Example, subsidy**.
- Taxation system where income subsidies are given to persons or families that are below the poverty line.
- Government will send financial aid to persons who file an income tax return reporting an income below a certain level.

Pigouvian tax

- Imposed on body that have **negative externality. For Example, pollution**

Externality

- **Impact of one person's action on the wellbeing of an outsider (by stander or 3rd party)**
- For Example, **seller and consumer of cigarettes influence a third party.**
- Negative externality is found for example in fumes from automobiles.
- Positive externality is good effect on 3rd party. For Example, Restoration of Historic buildings and research into new technologies.
- **Carbon tax is one example of Pigouvian tax.**

Octroi

- **Entry 52 of SL in 7th schedule**.
- Tax on entry of goods into a local area.
- Main source of revenue for most of urban local bodies.
- Criticized for: it is an obsolete method of tax collection. Involves stoppage of vehicles at check posts. Obstruct free flow of vehicles. Wastage of business hours, loss of fuel etc.

Tax Buoyancy

- **The percentage change in tax revenue with the growth of national income**

- Growth based increased in tax collections.

Tax elasticity

- **Percentage change in tax revenue in response to change in tax rate and the extension of coverage.**

Tax Stability

- **No frequent changes in the tax rate.**
- There is a continuity of policy in a predictable and transparent manner.
- Revenue stability is desirable because it makes it easier for a government to build a credible spending and borrowing plan for the year ahead.
- Tax stability contributes to overall revenue stability.
- Market players also can plan better.

Tobin Tax

- **Economist James Tobin proposed it.**
- **Worldwide tax on all foreign exchange transactions**
- When foreign capital enters the country and when it leaves
- Aim: To check speculative inflows of FIIs
- FDI will not suffer because it will not invest for speculative reasons
- **It is also known as Robin Hood Tax**

Tax Rebate

- A **tax** refund or **tax rebate** is a refund on **taxes** when the **tax** liability is less than the **taxes** paid.
- **Vijay Kelkar Committee** has suggested to abolish it in India

Cess

- **Generally, means Tax**
- It's an additional levy **on tax for a specific purpose. For Example, education cess and Swatchh Bharat Cess**

Difference between Cess and Surcharge

- **Surcharge is General and can be used for any purposes**
- **Cess is specific and can be used only for designated purpose like education cess**.

Value Added Tax

- **It is charged both on goods and services**
- **It is imposed on at all levels of manufacture of goods and services based on increase in price**
- **Hence, it is a multi-point tax collection**
- **VAT does not have a cascading effect on the prices of the goods**
- **Similar goods and services are taxed equally**. So, a similar television from all brands will be taxed the same
- **VAT is levied at each stage of production and hence makes the taxation process easier and more transparent**
- **VAT reduces chances of tax evasion and fosters compliance**
- **Encourages transparency in sale of goods and services at the tiniest level**
- **It is an item in the state list and managed by the state**

Fringe Benefit Tax(FBT).

- Fringe Benefits**: benefits enjoyed by employees collectively not individually**.
- Taxed in the hands of employer. For Example, transport services, gym, club etc.
- **Abolished in 2009-10 budget.**

Perquisite

- Individual benefits **given to employees by the employer**
- Employee has a right by virtue of his employment.
- Perks (colloquial name) are benefits generally **in cash/kind.**
- Taxable **as per India income tax laws.**

It includes:

- **Value of rent free accommodations**
- **Value of concession in the rent of accommodation**

- **Car**
- **Membership of Club.**
- **Travel.**

Capital Gains Tax

- **Any profit or gain that arises from the sale of a 'capital asset' is a capital gain.**
- **This gain or profit comes under the category of 'income'.**
- **Long-term Capital Gains Tax: It is a levy on the profits from the sale of assets held for more than a year. The rates are 0%, 15%, or 20%, depending on tax bracket.**
- **Short-term Capital Gains Tax: It applies to assets held for a year or less and is taxed as ordinary income.**
- **Land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, jewellery, art work and painting are a few examples of capital assets.**

Securities Transaction Tax

- **It is a type of financial transaction tax levied in India on transactions done on the domestic stock exchanges**
- **Rate of tax is declared in each budget**
- **It is a direct tax**

Minimum Alternative Tax

- **It is a direct tax imposed on the 'zero tax' companies at the rate of 18.5% on their book profit**
- **Income tax is paid as per the provisions of the Income Tax Act, but companies calculate their profit and loss as per the Companies Act**
- **Income tax Act allows several kinds of exemptions and incentives**
- **Rates of depreciation under the Companies Act is higher than the IT Act**
- **As these exemptions and deductions of both acts are considered together, companies show their taxable income nil or negative**

Base Erosion and Profit Shifting (BEPS)

- **Base Erosion and Profit Shifting (BEPS) refers to the strategies used by multinational companies to avoid paying tax, by exploiting the mismatches and gaps in the tax rules**
- **Tax is levied on the multinational company by the Government as a percentage of the profit or income of the multinational company.**
- **Using the loopholes, the multinational company shifts its income or profit to another country which could be a tax haven**
- **Organisation for Economic Cooperation and Development launched the BEPS project to tackle the problem of tax avoidance, to bring in a transparent tax environment and bring in more synergy to the international tax rules.**

15th Finance Commission of India

- Under **Article 280 of the Constitution, the President of India** is required to constitute a Finance Commission at an interval of five years or earlier.
- The 15th Finance Commission was constituted by the President of India in November 2017, **under the chairmanship of NK Singh.**
- Members are: **Prof. Anoop Singh, Dr. Ashok Lahiri, Ajay Narayan Jha, Dr. Ramesh Chand**
- Its recommendations will cover a **period of five years from the year 2021-22 to 2025-26.**
- It has recommended **maintaining the vertical devolution at 41% of net proceeds of taxes for the states**

Foreign Trade of India

Imports and Exports

- Largest trading partner of **India is the ……………… (Export and Import)**
- **…………… is the second largest** trade partner
- **Largest imports of India are form China** (India has largest BOT with China)
- **Largest export of India is to United States**
- India's share **in the world export is 2%**
- India's **share in the export of services is 3.3%**
- **India's export of goods is less than its import of goods**

- **India's export of services is higher than its import of services**

FDI and FII

- Largest flow of FDI to India is **from Singapore followed by the US and Mauritius at second and third positions respectively (2022)**
- **Karnataka (37.55%) and Maharashtra (26.26%) are the top 2 States in receiving FDI (2022)**
- **As per the UNCTAD** (United Nations Conference on Trade and Development) World Investment Report (WIR) 2022, in its analysis of the global trends in FDI inflows, India has improved one position to **7th rank** among the **top 20 host economies for 2021.**
- **In India, 100% FDI is permitted in all non-critical sectors**
- **In Defence, 74 per cent FDI is permitted** under the automatic route and up to **100 per cent through the government route**

Sectors received Highest FDI in India in 2021

- **Computer Software & Hardware:** 24.60%
- **Services Sector** (Fin., Banking, Insurance, Non Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other): 12.13%
- **Automobile Industry:** 11.89%

Forex Reserves

- Forex reserve of an economy is its **foreign currency assets** added with its **gold reserves, SDRs and reserve Tranche in the IMF**
- The present forex reserve of India is above **421 billion USD**
- The **reserve cover for imports is 12 months** now. It means that India's total forex reserves can finance India's future import bills for 12 months
- This is called as the Import Cover

Methods of Calculating Currency Value

Fixed Currency Regime

- It is method brought by **IMF for regulating exchange rate of world currencies**

- In this system, exchange rate of a currency was fixed by the IMF keeping the currency in front of a basket of important world currencies including **UK Pound Sterling, US Dollar, Japanese Yen, German Mark and French Franc)**
- In this system, IMF modifies exchange **rate from time to time**

Floating Currency Regime

- In this system currency **value is fixed on the market mechanism based on demand and supply**
- **UK was the first country** to switch over into the floating currency mechanism in 1973
- In this year, **IMF allowed its member countries to follow** either fixed on floating currency value
- It is called as **market driven exchange rate**
- It is **fixed by the demand and supply of the domestic and the foreign currencies in the concerned economy**
- For example, **USA and EU currencies' value is free floating**

Managed Exchange Rate

- It is a **mixture of fixed and flexible exchange rate systems**
- In this system**, government of the economy attempts to affect the exchange rate directly by selling or buying foreign currencies or indirectly through monetary policy** (by lowering or raising interest rates on foreign currency bank accounts affecting foreign investment)
- **Canada, Japan and India** are examples of this system

Pegging of the Currencies

- Some countries **peg their currency to a major currency or a basket of currencies**
- Gliding or crawling peg means that **peg is allowed to glide smoothly upward or downward**

Hard Fix by Currency Board

- In some countries, **a currency board is working to fix the value of the currency**
- **Hong Kong** is the best example
- This system **failed in Argentina in 2002**

Exchange Rate in India

- Indian **currency was linked to British Pound Sterling till 1948**
- After that India followed different systems **like IMF Fixed Currency regime and RBI fixing the value in comparison to different international currencies**
- **After 1992, India moved to a floating currency regime**
- India has its own method known **as 'dual exchange rate'.**
- There are two exchange rates for rupee one is the **official rate and the other is the market rate**
- **But RBI may intervene in the forex market to influence to value of the currency**
- **Demand and supply of Indian currency determines the value of Indian Currency**
- **Demand for the goods and services provided by India also influences the value of Indian currency**
- **A stable government will boost confidence in investors and it may also lead to the increase in the exchange rate.**

Factors Responsible for Appreciation and Depreciation of Currency

- **Inflation**
- **Interest Rates**
- **Trade Deficit (Current Account Deficit)**
- **Import and Export**
- **Public Debt**
- **Exchange rate of Hard Currency and Changes in the monetary policy of India's major trade partners**

Impacts of Appreciation and Depreciation

- **Import and Export**
- **Competitiveness of our Exports- Increases during devaluation**
- **Capital Flight**
- **Interest Expenditure of Foreign Loan Increases due to Depreciation- Currency Risk**

PPP Exchange Rate

- **It is the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.**
- **The PPP exchange rates are constructed to ensure that the same quantity of goods and services are priced equivalently across countries.**
- **PPP exchange rates are used to convert the national poverty lines from some of the poorest countries in the world to determine the Global Poverty Line.**
- **In terms of PPP dollars, India is the third largest economy in the world**

Trade Balance or Balance of Trade

- The monetary **difference of the total export and import of an economy** in one financial year is called as trade balance.
- it might be either **positive (Surplus) or negative (Deficit)**

Depreciation

- It is a situation when domestic **currency loses its value in front of a foreign currency if the exchange rate is market driven**
- **Sharp depreciation is known as currency crisis**

Devaluation

- It is a situation when **exchange rate of domestic currency is cut down by its government against any foreign currency**
- **Official depreciation** is devaluation

Appreciation

- It is a situation **when domestic currency increases its value in front of a foreign currency if the exchange rate is market driven**

Revaluation

- It is a situation when **exchange rate of domestic currency is increased by its government against any foreign currency**
- **Official appreciation** is revaluation

Current Account and Capital Account of External Sector

Current Account

- It is an account maintained by the RBI in which **every current transaction is shown**
- **Current transactions** of an economy in foreign currency all over the world are **export, import, interest payment, private remittances and transfers**
- If the inflow through current is more in an economy, it is known as **current account surplus**
- If outflow is more it is known as **current account deficit**
- Presently, India has a **current account deficit of 1.9 percent of GDP** (2018)

Current Account Convertibility

- **It is the possibility of converting a foreign currency in a market** for the purpose of current account transactions
- If the market permits 100 percent convertibility for current account transactions, then the market has **full current account convertibility**
- **After 1991, India follows full current account convertibility**

Capital Account

- It is an account maintained by every economy and shows the capital kind of transactions
- **Capital account** transactions include lending and borrowing, **foreign currency deposits of banks, external bonds issued by government of India, FDI, Portfolio Investment Scheme (It is investment in banks and stock market) and Qualified Foreign Investments**

Capital Account Convertibility

- It is **the possibility for converting foreign currency in a market for the capital account transactions**
- India started moving towards full convertibility in capital account after the recommendations of **SS Tarapore Committee in 1997**
- **India still does not offer full convertibility in this regard**
- **Corporates are allowed to convert up to USD 500 million** through automatic route
- **Individuals are allowed to invest in foreign assets and shares up to 2.5 lakh USD**

Balance of Payment

- The outcome of total transactions of an economy with the outside world in one year is known as **Balance of Payment (BoP)**
- It is the **net outcome of current and capital accounts of an economy**
- It may be either **surplus or deficit**
- If the outcome is **positive at the end of the year, the money is automatically transferred to the forex reserve of the country**
- If the **outcome is negative, the same amount is drawn out of the foreign exchange reserve of the country**
- **If the forex reserves are not capable of fulfilling the negativity created by the BoP, the situation is known as the BoP Crisis.**
- India had a **BoP crisis in 1990**

LERMS (Liberalised Exchange Rate Mechanism System)

- **India followed it from Union Budget 1992-93**
- India **moved from fixed currency exchange rate to floating rate**

NEER (Nominal Effective Exchange Rate

- It is the weighted average exchange rate of rupee before the currencies of India's major trade partners

REER (Real Effective Exchange Rate)

- It is the rate after the weight of **inflation is adjusted with NEER**

EFF (The Extended Fund Facility)

- It is a service of provided **by IMF to its member countries to raise any amount of foreign exchange from it to fulfil their BoP Crisis**
- To get this, countries have to introduce structural reforms in the economy as per the recommendations of IMF
- **India signed it 1981 -82**

Hard Currency

- It is the international currency in which the highest **faith is shown and is needed by every economy**
- The currency will have highest level of liquidity all over the world
- Up to Second World War, the best hard currency was **Pound Sterling**
- Soon after the war, it was replaced by the **US Dollar**
- The non-availability of the international hard currency is known as the **problem of International Liquidity**

Soft Currency

- It is a currency which is **easily available in any economy**
- For Example, **Indian rupee is a soft currency in Indian market**

Hot Currency

- **If a foreign currency or hard currency leaves an economy** in a fast pace for certain reasons, then it is called as Hot Currency

Heated Currency

- **When the domestic currency is under enough pressure (heat)** of depreciation due to the hard currencies' high tendency of exiting the economy (It becomes hot)
- It is also known as **currency under heat or under hammering**

Cheap Currency

- The term was introduced by **JM Keynes in 1930s**
- **If a government starts re-purchasing its bonds before their maturities** at full maturity price, then the money which flows into the economy is known as **cheap currency or cheap money**

Dear Currency

- This term was also **popularised by economists in 1930s**
- It is the opposite of **cheap currency**
- When the government issues bonds, the money which flows from the public to the government is called dear currency or dear money

Emerging Markets

- **Definition: countries that are restructuring their economics along market oriented lines.**
- Offer a wealth of opportunities for trade technology transfer and FDI.
- Four biggest country: China, India, Indonesia, Brazil.

Characteristics

- Regional power Houses.
- They are transitional societies.
- World fastest growing economics.
- Critical participation in worlds major political economic and social affairs. For Example, G20.

Public Sector Units in India

- They are known as **Personal Milch cow in India**

Maharatna, Navaratna and Mini-Ratnas

Mahartna Companies

Terms and Conditions

1. Company should possess Navaratna Status
2. It should be listed in the stock exchange
3. Average annual turnover of more than 20000 crores during last 3 years
4. Average annual net worth of more than 10000 crores during last 3 years
5. Average annual net profit after tax of more than 2500 crores during last 3 years
6. The entity should have significant global presence or international operations

Benefits of Maharatna Companies

Rs. 1,000 crore - Rs. 5,000 crores, or free to decide on investments up to 15% of their net worth in a project

10 Central Public-Sector Enterprises are categorised as Maharatna Companies

1. **Bharat Heavy Electricals Limited**
2. **Coal India Limited**
3. **Gas Authority of India Limited (GAIL)**
4. **Indian Oil Corporation Limited**

5. **National Thermal Power Corporation (NTPC Limited)**
6. **Oil and natural Gas Corporation (ONGC)**
7. **Steel Authority of India Limited**
8. **Bharat Petroleum Corporation Limited (BPCL)**
9. **Hindustan Petroleum Corporation Limited (HPCL)**
10. **Power Grid Corporation of India (POWERGRID)**

Navaratna Company

- A score of **60 (out of 100),** based on six parameters which include **net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes), capital employed, etc**.
- A company must **first be a Miniratna and have 4 independent directors on its board before it can be made a Navratna.**

Benefits of Navaratna Company

- **Up to Rs. 1,000 crore or 15% of their net worth on a single project or 30%** of their net worth in the whole year (not exceeding Rs. 1,000 crores).

14 Companies are categorised as Navaratna Companies

- 61 companies are included in Miniratna I Category
- 12 Companies are included Miniratna II Category

Agriculture and Food Management in India

- Share of agriculture in the India economy is **more than 17% of the GDP**
- But, about **48 percent of our population depends on agriculture**
- At the time of independence, it **was 55.4% of the GDP**

Cropping Seasons of India

Kharif, Rabi and Zaid

- **Kharif** is the agriculture season from **July to October** during **South West or Summer monsoon**
- Crops of this season include **rice, maize, sorghum, pearl millet (bajra), finger millet (ragi), pulses, soybean, ground nut, cotton etc.**

- **Rabi** is the season between **October and March** during the time of **North East and Retreating monsoon**
- Rabi crops include **wheat, barely, oats, chickpea, linseed, mustard etc**.
- The season between **Mach and June** is known as **Zaid/Jayad**

Green Revolution

- It was the introduction of **new scientific techniques into agriculture**
- First introduced in **wheat cultivation and then extended to the rice**
- The Green revolution was centered around the use of **High Yielding Variety of seeds developed US agro-scientist Norman Borlung**
- The programme was started in India with the help of **US based Rockfeller Foundation**
- **MS Swaminathan** is known as the father of green revolution in India

Components of Green Revolution in India

1. **High Yielding Variety of seeds** popularly called as **dwarf variety of seeds**
   - These seeds were **non-photosynthetic** and hence non-dependent on sun rays for targeted yield
2. **Chemical Fertilizers**
   - **Urea, Phosphate and Potash** were used as chemical fertilizers
3. **The Irrigation**
4. **Chemical Pesticides and germicides**
5. **Chemical Herbicides and Weedicides**
6. **Credit, Storage, Marketing and Distribution**

Pradhan Mantri Krishi Sinchayee Yojana

- It is a new **irrigation programme by the government to increase productivity**
- The programme motto is **"Har Khet Ko Pani"**
- It is project of rupees **500 billion for five years between 2015-2020**
- It is implemented under 3 ministries: **Ministry of Water Resources, Ministry of Rural Development and Ministry of Agriculture**
- It has amalgamated different ongoing programmes like **Accelerated Irrigation Benefit Programme of Ministry of Water Resources, River Development and Ganga Rejuvenation, Integrated Watershed Management Programme of Department of**

Land resources and the On-Farm Water Management of Department of Agriculture and Cooperation

Pradhan Mantri Fasal Bima Yojana (PMFBY)

- **It replaced two earlier programmes, National Agricultural Insurance Scheme (NAIS) and modified NAIS**
- **It provides a comprehensive insurance cover against failure of the crop thus helping in stabilising the income of the farmers.**
- **All food & oilseed crops and annual commercial/horticultural crops for which past yield data is available are covered under this scheme.**
- **The prescribed premium is 2% to be paid by farmers for all Kharif crops and 1.5% for all rabi crops. In the case of annual commercial and horticultural crops, the premium is 5%.**
- **Premium cost over and above the farmer share was equally subsidized by States and Government of India**
- **However, Government of India shared 90% of the premium subsidy for North Eastern States to promote the uptake in the region.**
- **The scheme was compulsory for loanee farmers availing Crop Loan/Kisan Credit Card (KCC) account for notified crops and voluntary for other**
- **This scheme covers post-harvest losses arising out of cyclones and unseasonal rains for those crops which are allowed to dry in cut and spread situation**

White Revolution

- Operation **Flood is the programme behind the white revolution**
- It was launched in **1966 by National Dairy Development Board**
- It is the **largest dairy development programme in the world**
- **Anand Pattern** of experiment at **Amul dairy** was the engine behind the success of the programme
- **Vargheese Kurian** established Anand pattern as a cooperative dairy development system

Soil Health Card Scheme

- **The Ministry of Agriculture and Farmers' Welfare** introduced the scheme in 2015
- Soil Health Card (SHC) is a printed report which contains nutrient status of soil with respect to 12 nutrients: **Potential of Hydrogen (pH) Electrical Conductivity (EC), Organic Carbon (OC), Nitrogen (N), Phosphorus (P), Potassium (K), Sulphur (S), Zinc (Zn), Boron (B), Iron (Fe), Manganese (Mn) and Copper (Cu) of farm holdings.**
- SHC is provided to all farmers in the country at an interval of **3 years to enable the farmers to apply recommended doses of nutrients based on soil test**
- The scheme will help in **checking the overuse of fertilizers in farmlands.**

Agricultural Credit in India

- **Highest credit to the garniture is given in India by the commercial banks due to the mandatory 18% Priority Sector Lending**

Kisan Credit Card

- **The Kisan Credit Card (KCC) scheme was introduced in 1998 for providing adequate and timely credit support from the banking system**
- **KCC covers post-harvest expenses, produce marketing loan, consumption requirements of farmer household, working capital for maintenance of farm assets and activities allied to agriculture, investment credit requirement for agriculture and allied activities.**
- **The Kisan Credit Card Scheme is implemented by Commercial Banks, RRBs, Small Finance Banks and Cooperatives.**

Interest Subvention Scheme

- **It aims to provide short-term crop loans up to ₹3 lakh to farmers at an interest rate of 7 per cent per annum.**
- **Lending institutions – PSBs and private sector commercial banks offer interest subvention of 2 per cent by the government.**
- **The policy came into force with effect from 2006-07**
- **The Interest Subvention Scheme is being implemented by NABARD and RBI.**

Food Management in India

Minimum Support Price

- It is a form of **market intervention by the government** to insure agricultural producers against **any sharp fall in farm prices**
- The MSP are **announced at the is beginning of the sowing season for certain crops**
- The price would be recommended by **Commission for Agricultural Costs and Prices**
- Presently MSP is announced for **23 commodities**
- **The mandated crops include 14 crops of the kharif season, 6 rabi crops and 3 other commercial crops**
- **The list of crops are as follows:**
- **Cereals (7)**
    1. **Paddy**
    2. **Wheat**
    3. **Barley**
    4. **Jowar**
    5. **Bajra**
    6. **Maize**
    7. **Ragi**
- **Pulses (5)**
    8. **Gram**
    9. **Arhar/Tur**
    10. **Moong**
    11. **Urad**
    12. **Lentil**
- **Oilseeds (8)**
    13. **Groundnut**
    14. **Rapeseed/Mustard**
    15. **Toria**
    16. **Soyabean**
    17. **Sunflower Seed**
    18. **Sesamum**

19. Safflower Seed
20. Niger Seed

- Commercial Crops (3)

21. Raw cotton
22. Raw jute
23. Copra and De-husked coconut

- Sugarcane (Fair and remunerative price).

Fair and remunerative price (FRP)

- Fair and remunerative price (FRP) is the minimum price at which rate sugarcane is to be purchased by sugar mills from farmers.
- The FRP is based on the recommendation of the Commission of Agricultural Costs & Prices (CACP).
- The approval will ensure a guaranteed price to cane growers. The 'FRP' of sugarcane is determined under Sugarcane (Control) Order.
- Fair and remunerative price (FRP) is finally approved by the Cabinet Committee on Economic Affairs (CCEA)

Pradhan Mantri Annadata Aay Sanrakshan Abhiyan PM-AASHA

- It is a new umbrella scheme which will provide Minimum Support Price (MSP) assurance to farmers.
- Following are the programmes under the scheme

Price Support Scheme (PSS)

- Under the PSS, Central nodal agencies will procure pulses, oilseeds and copra with proactive role of state governments.
- The Food corporation of India (FCI) and the National Agricultural Cooperative Marketing Federation of India (NAFED) will help implement the scheme.
- The procurement expenditure and losses due to procurement will be borne by Central Government as per norms.
- The government will procure 25% of the marketable surplus of farmers for pulses, oilseeds and copra

Price Deficiency Payment Scheme (PDPS)

- Under the PDPS, the state will provide the difference between the prices prevailing in mandis and the MSP.
- All oil-seeds are to be covered under PDPS.
- This scheme is modelled on the Bhawantar Bhugtan Yojana that has been implemented by the Madhya Pradesh state government as well as Bhavantar Bharpai Yojana of Haryana Government.
- There will be no physical procurement of crops.

Pilot of Private Procurement & Stockist Scheme (PPPS)

- Private agencies will procure oilseeds in coordination with the government.
- The selected private agency shall procure the commodity at MSP in the notified markets during the notified period from the registered farmers in consonance with the PPSS Guidelines, whenever the prices in the market fall below the notified MSP and whenever authorized by the state/UT government.

Agricultural Produce Market Committee Act

- Agricultural Produce Market Committees (APMC) is the marketing board established by the state governments with aim of eliminating the exploitation incidences of the farmers by the intermediaries
- The APMC has Yards/Mandis in the market area that regulates the notified agricultural produce and livestock.
- APMC ensures worthy prices and timely payments to the farmers for their produce.
- APMC is also responsible for the regulation of agricultural trading practices.
- This results in multiple benefits like elimination of unnecessary intermediaries, improving the efficiency of markets by decreasing market fees
- Needless intermediaries are eliminated
- Improved market efficiency through a decrease in market charges
- The producer-seller interest is well protected

- **The Government of India designed a model Agricultural Produce Market Committee (APMC) Act in 2003**
- **The National Agriculture Market (NAM) is a pan-India electronic trading portal, which links the existing Agricultural Produce Market Committee (APMC) mandis across the country to form a unified national market for agricultural commodities.**

Market Intervention Scheme

- It is an intervention **by the central government in the market on the request of state governments** for procurement of perishable horticulture commodities in the event of fall in market prices

Buffer Stock

- It is a system of **keeping a food reserve of wheat and rice** only at Food Corporation of India
- Foods crops are **distributed from FCI to Public Distribution Shops**

National Food Security Act, 2013

- Aim is to provide **subsidized food crops to approximately two thirds of India**
- **It covers 2/3 of rural population and half of urban population**
- **Beneficiaries are households covered under the priority households and the Antyodaya Anna Yojana households**
- **AAY households encompass the households headed by widows or disabled persons or persons aged 60 years or more with no assured means of subsistence or societal support.**
- **The eldest woman in a household, of age 18 years or above, shall be the head of the household for the purpose of issuance of a ration card.**
- It gives **legal entitlements for existing food security programmes** of the government including **Midday Meal Scheme, Integrated Child Development Services and Public Distribution System**
- It also **recognizes maternity entitlements**
- The programme offers **5 kg of food crops per person under Public Distribution System** at fixed price of **rupees 3 for rice, rupees 2 for wheat and rupees 1 for millet per one kilogram**

- **Pregnant women, lactating mothers and certain categories of children** are eligible for daily free cereals of 600 Kcal during pregnancy and for six months thereafter.
- Maternity benefit of not less than Rs.6000 is also provided to pregnant women and lactating mothers.
- Children in the age group of 6-14 years would also be entitled to free nutritious meals under the MDM and ICDS schemes.

Economic Reforms

- Economic reforms are a process in which a government prescribes **declining role for the state and expanding role for the private sector in an economy**
- After independence, **India followed planned economy**
- During this time, we followed **protectionist economic policy** with **import substitution as a method**
- **By 1980s** a new development strategy called as **Washington Consensus emerged**
- It supported **private sector instead of stated-dominated economy**
- This consensus is called as economic reforms and was **followed by all planned economies during 1980s**
- By 1990s, **the countries again started shifting towards a mixed economy** which a middle way between planned system and Washington Consensus

Economic Reforms in India

- India launched it **on July 23, 1991**
- It is called as **Rao Manmoham model of reforms**

IMF Conditions for India to get EFF

- **Devaluation of rupee by 22%.** Indian rupee fell down from **Rs. 21 for a USD to Rs. 27**
- Drastic reduction of **peak import tariff from 130 percent to a maximum 30 percent**
- **Hike excise duties by 20 percent** to neutralize the revenue shortfalls from customs
- **Cut down government expenditure by 10 percent**

Liberalization

- Liberalization is the **pro market and pro capitalist inclination** in the economic policies of India
- In other terms, it can be called as a model of **Laissez-faire**
- It means **decreasing traits of a state economy and increasing traits of market economy** in India
- India attempted to **strike its own balance of the state-market mix**

Privatization

- Under this policy **state assets were transferred to the private**
- It means **denationalization of state assets**
- India started **disinvestment of public sector enterprises** after introducing economic reforms

Globalization

- It is an increase in economic integration among nations
- The concept was popularized by Organization of Economic Cooperation and Development (OECD) in early 1980s
- WTO is the highest international body which controls globalization at present
- India is a founding member of WTO and follows its rules and regulations

Industry and Infrastructure in India

- First industrial policy of independent India was declared through **Industrial Policy resolution, 1948**
- The policy put some of the important industries in **Central List like railway, power, civil aviation, arms and ammunition, defense etc.**
- Industries of medium category were put in **State List like paper, medicines, textiles, cycles, two wheelers etc.**
- The remaining industries were left **open for private sector**
- **In 1956, the Industrial policy was reformed again.**
- The new policy of 1956 reserved **17 industries (Schedule A) for the center** and **12 industries (Schedule B) for the states** and the remaining **(Schedule C) were left open for the private**
- The policy made **licensing compulsory for all schedule A and Schedule B industries**

- This policy was later reformed several number of times till the new **Industrial Policy adopted in 1991**

New Industrial Policy 1991

- The policy had following major features

1. De-Reservation of the Industries

- The industries reserved for central government **was cut down into 8**
- **6 among them were de-reserved in the coming years**
- At present, **only two industries** are reserved for the central government
- They are **atomic energy and nuclear research** and other related activities and **railways**

2. De-Licensing of the Industries

- Under the new policy **compulsory licensing was cut down to only 18** industries (Earlier it was compulsory for all Schedule A and Schedule B industries
- Presently, licensing is compulsory only for **following 5 businesses**
  1) **Aerospace and defense related electronics**
  2) **Gun powder, industrial explosives, and detonating fuse**
  3) **Dangerous chemicals**
  4) **Tobacco, cigarette, and related products**
  5) **Alcoholic drinks**

3. Promotion to Foreign Investment

- **Foreign Direct investment, portfolio investment and Foreign Institutional Invest** were promoted in India
- Replaced the draconian **Foreign Exchange Regulation Act (FERA)** with more liberal **Foreign Exchange Management Act (FEMA)**

Disinvestment

- It is the process of **selling shares of public sector enterprises**
- It can be classified into two; **Token Disinvestment and Strategic Disinvestment**
- **Token Disinvestment** means the sale of shares **up to 49 percent** and the **management is kept with the government**

- **Strategic disinvestment** means selling **more than 51 percent** of shares and **handing over the management into the private sector**

Make in India

- It was launched by the government in **2014** to encourage **multinational and Indian companies to manufacture their products in India**
- Vision of the scheme is to enable India to be the **top FDI destination surpassing China and the US**
- It aims to create jobs in following **25 key sectors of the economy**
    1) **Automobiles**
    2) **Auto components**
    3) **Aviation**
    4) **Biotechnology**
    5) **Chemicals**
    6) **Construction;**
    7) **Défense manufacturing**
    8) **Electrical machinery**
    9) **Electronic system design and manufacturing**
    10) **Food processing**
    11) **IT and BPM**
    12) **Leather**
    13) **Media and entertainment**
    14) **Mining**
    15) **Oil and gas**
    16) **Pharmaceuticals**
    17) **Ports**
    18) **Railways**
    19) **Renewable energy**
    20) **Roads and highways**
    21) **Space**
    22) **Textiles**
    23) **Thermal power**
    24) **Tourism & Hospitality**

25) **Wellness**

- Key Policies to be followed in the programme are:
    1) **Ease of Doing Business**
    2) **100 Smart Cities**
    3) **Disinvestment of PSUs**
    4) **Skills and jobs for youth**
- The initiative is based on four Pillars
    1) **New Process**
    2) **New Infrastructure**
    3) **New Sectors**
    4) **New Mindset**

Start Up India

- The scheme was **launched in 2016 with the motto 'Start-Up India and Stand-Up India'**
- Its aim was to bring **innovation, sustainable economic growth and large-scale employment opportunities**
- It is based on an **action plan, aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourages start-ups with jobs creation**
- **Start-Up India Hub** is a common online platform for all stakeholders of the entrepreneurial ecosystem like start-ups, investors, mentors, academia, incubators, accelerators, corporates, Government bodies in India, etc. to discover, connect and engage with each other

Different Government Committees

Poverty Estimation Committees

- **Dadabai Naorji was the first person to estimate poverty in India**

    He put forward the idea of **demarcating a poverty line**
- **YK Alagh Committee**

    He Suggested the consumption method for estimating poverty first time in 1979

It suggested that people consuming less 2400 calorie food per day in rural area and those consuming below 2100 calorie in urban area are poor

- **Lakdawala Committee 1993**

  It also suggested the consumption method as mentioned in YK Alagh report

  It suggested that people consuming less 2400 calorie food per day in rural area and those consuming below 2100 calorie in urban area are poor

- **Suresh Tendulkar Committee 2005**

  He opted cost of living as a method to measure poverty. It includes expenditure on education, healthcare, electricity and transport

  He fixed the poverty line at Rupees 27 per capita expenditure for rural population and rupees 33 per capita expenditure for urban population

  Estimated the poverty of India as 22 percent of population

- **C Rangarajan Panel**

  Estimated poverty at 30 percent in 2011

  He fixed the poverty line at Rupees 32 per capita expenditure for rural population and rupees 47 per capita expenditure for urban population

- **Aravind Pangariya Task Force on Poverty Estimation**

  Constituted by NITI Aayog in 2015

  Aravind Pangariya was the Vice Chairperson of NITI Aayog

  Could not reach into a conclusion

  It recommended Government to constitute another committee for this purpose

Other Committees

- Raja Chelliah Committee on Tax Reforms
- Vijay Kelkar Committee on Tax Reforms
- Sukhmoy Chakravarty Committee on Monetary Policy
- BK Chaturvedi Committee on restricting Centrally Sponsored Programmes

Planning in India

Background

- **The Visvesvaraya Plan:** the credit of proposing the first blueprint of Indian planning is given to the popular civil engineer and the ex-Dewan of the Mysore state, M. Visvesvaraya. **In his book the planned economy of India, published in 1934**.
- **This was the first systematic attempt for economic planning in India**
- **The FICCI Proposal:**
- **In 1934** a serious need of national planning was recommended by the Federation of Indian Chambers of Commerce and Industry (FICCI).
- Voicing the views of the capitalist class, it further called for a high powered '**National Planning Commission'.**

The Congress Plan

- It was on the initiative of the **INC president Subhash C. Bose** that the National **Planning Commission (NPC) was set up in October 1938** under the chairmanship of **Jawaharlal Nehru** to work out concrete programmes for development encompassing all major areas of the economy.
- **The 15-member NPC with 29 sub committees and a total of 350 members produced 29 volumes of recommendations.**

Planning and Development Departments

- After all possible delays, **it was in 1944 that the government created a Planning and Development Department** under a separate member of the Viceroy's executive council for organising and co-ordinating economic planning in the country.
- **Ardeshir Dalal** was appointed as one of its acting members

The Bombay Plan 1944

- **The Bombay Plan** was the popular title of **'A Plan of Economic Development for India'** which was prepared by a cross section of India's leading capitalists.

The Gandhian Plan

- Espousing the spirit of the Gandhian economic thinking, **Sriman Narayan** formulated **The Gandhian Plan in 1944.**

- The plan laid **more emphasis on agriculture.**

The People's Plan

- In 1945 yet another plan was formulated by the radical humanist leader **M.N.Roy**, chairman of the post war reconstruction committee of **Indian Trade Union.**
- The plan was based on **Marxist socialism.**

The Sarvodaya Plan 1950

- After the reports of the NPC were published and the government was set to go for the five-year plans, a lone blueprint for the planned development of India was formulated by the famous socialist leader **Jayaprakash Narayan-the Sarvodaya Plan published in January 1950.**
- The plan drew its major inspirations from the **Gandhian techniques**.
- By the early1960s, Jayaprakash Narayan had become highly critical of the Indian Planning process.

Six major objectives of planning in India

- **Economic Growth.**
- **Poverty Alleviation.**
- **Employment Generations.**
- **Controlling Economic Inequality.**
- **Self-reliance.**
- **Modernisation.**

Planning Commission of India

- **In March 1950**, the planning Commission (PC) was set up by the government by a **cabinet resolution.**
- It is an **extra- constitutional and non-statutory body**.
- An **advisory body to the Government.**
- A **think tank** on economic development with the **Prime Minister as its ex-officio Chairman** and with the provisions or a **Deputy Chairman with the rank of Cabinet Minister**.

- Had an **open provision for the number of its membership and their educational qualifications** (as many area experts are required by the proposed period of planning)
- **Six union cabinet ministers are elected as its ex-officio members** and a **Member Secretary.** The Minister of Planning is already an ex-officio member of the PC.
- Planning Commission is an autonomous body entitled to form its own views on important issues and place them before the governments.
- It works closely with the Union and state cabinets and had full knowledge of their polices.
- Was invariably consulted on changes proposed in social and economic policies.
- **Linked with the Union Cabinet at the secretarial level**
- Seated at the **Yojana Bhavan**, New Delhi.
- The Planning Commission was a technical body with experts and professionals coming from an array of specific areas as per the need of planning of the concerned period.
- The commission **had executive powers**.
- The last deputy chairman of Planning Commission was **Montek Sing Ahluwalia**.

Functions of the Planning Commission

- An **assessment of the material, capital and human resources of the country.**
- **Formulate a plan** for the most effective and balanced utilisation of the country's resources.
- **Indicate the factors which are tending to retard economic development**.
- **Appraise from time to time the progress achieved** in the execution of each stage of the plan.
- **Make such interim or ancillary recommendations** as appear to be appropriate.
- On January 1,2015, the government formally abolished the PC by replacing it with the newly created body – **the NITI Aayog**

National Development Council

- **The National Development Council (NDC) was set up on August 6, 1952** by a resolution issued from the cabinet Secretariat. The first plan recommended its formation with a very concise and suitable observations.

- **The reconstituted NDC comprises the Prime Minister, all Union Cabinet Ministers, Chief Minister of all States and Union Territories and the Members of the Planning Commission.**
- Delhi administration is represented in the council by **the Lt. Governor and the chief Executive Councillor and the remaining Union Territories by their respective Administration**
- The NDC had its last meeting **held in December 2015 (57th meeting).** It is believed that in coming times the NDC will be merged with the governing council of the NITI Aayog.
- The Governing Council is a better equipped body than the NDC to establish a better **Union- State co-ordination.**
- **Five-year plans provide the components for a mixed economy**

The Five-Year Plans

First Plan

- The period for this plan was 1951-56. the plan accorded the highest priority to **agriculture including irrigation and power projects.**
- About **44.6 per cent of the plan outlay went in favour of the public sector undertakings (PSU)**
- **First Deputy Chairman of Planning Commission was Gulzarilal Nanda**
- **Target growth was 2.1 percent of GDP and achieved was 3.6%**

Second Plan

- The plan period was **1956-61**. The strategy of growth laid emphasis on rapid industrialisation with a focus on **heavy industries and capital goods**.
- The plan was developed by **Prof. Mahalanobis.**
- **Target Growth: 4.5% Actual Growth: 4.27%**

Third Plan

- The plan period was **1961-66**. The plan specifically incorporated the **development of agriculture**.

- Enough misfortunes awaited this plan- **two wars one with China in 1961-62 and the other with Pakistan in 1965-66** along the Gujrat border and **severe drought-led famine in 1965-66 had** to be faced.
- Due to heavy drain and diversions of funds this plan utterly **failed to meet its target**.
- Then named it as a period of '**Plan Holiday', i.e, the planning was on a holiday**.
- **Target Growth: 5.6% Actual Growth: 2.84%**

Fourth Plan

- The Plan period was **1969-74**. The plan was based on the **Gadgil strategy.**
- **The strategy was prepared by Dhananjay Ramachandra Gadgil**
- **The Gadgil strategy was based on allocation of central assistance for state plans**
- With special focus to the ideas of **growth with stability and progress towards self-reliance.**
- **Droughts and the Indo-Pak war of 1971-72** led the economy to capital diversions creating financial crunch for the plan.
- **The politicisation of planning stated from this plan** which took serious '**populist' design in the coming plans**.
- Frequent **double-digit inflations**, un-reigned increase in the **fiscal deficits**, **subsidy-induced higher non-plan expenditures** and the first move in the direction of **nationalisation and greater control and regulation of the economy** were some of the salient features of this plan, which continued unchanged till the early 1990s
- **Target Growth: 5.7% Actual Growth: 3.30%**

Fifth Plan

- The Plan **(1974-79)** has its focus on **poverty alleviation and self-reliance.**
- **Target Growth: 4.4% Actual Growth: 3.8**
- **Minimum needs Programme was introduced in this five-year Plan**
- **It included rural health, rural water supply, rural electrification, elementary education, adult education, nutrition, environmental improvement of urban slums and houses for landless labourers**

- The havocs **of hyper-inflation** led the government to **hand over a new function to the Reserve Bank of India to stabilise the inflation** (the function which the RBI carries forward even today)
- The plan period was badly disturbed by the d**raconian emergency and a change of the government at the centre**. The **Janata Party** came to power with a thumping victory in 1977.
- **The Janata Government did cut-short the Fifth Plan by a year ahead of its terminal year, i.e., by the fiscal 1977-78, in place of the decided 1978-79.**
- **A fresh plan the sixth plan for the period 1978-83** was launched by the new government which called it the **'Rolling Plan'.**
- In 1980 there was again a change of government at the centre with the return of the **Congress which abandoned the Sixth Plan of Janata government in the year 1980 itself**.
- **The Annual Plan (1979-80)** may be considered the lone independent remnant of the **'Rolling Plan'** of the Janata Government

Sixth Plan

- This plan **(1980-85)** was launched with the slogan of **Garibi Hatao' (alleviate poverty).**
- **Target Growth: 5.2% Actual Growth: 5.66%**
- **The minimum amount of calorie-based definition of poverty in India was accepted in this plan**
- Sixth Plan tried to improve the standard of living of the poor masses with the direct approach.
- **National Rural Employment Programme (NREP)- 1980**
- **Restructured twenty-point Programme-1982.**
- **Biogas Programme-1982.**
- **Development of women and children in rural areas(DWERA)- 1983.**
- **Rural Landless Employment Guarantee Programme(RLEGP)-1983.**
- **Self-employment to Educated Unemployed Youth Programme(SEEUP)-1983.**
- **Dairy Development Programme(DDP)-1983.**
- **Village and Small Industries Development Programme(VSIDP) -1983.**

- **Tribal Development Agency(TDA)-1983**
- **National seeds programme(NSP)-1983.**
- **Intensive Pulses Development Programme(IPDP)-1983.**
- **Intensive Cotton Development Programme(ICDP)-1983.**
- **Khadi and Village Industries Programme (KVIP)-1983.**
- **Programme for Depressed Areas(PDA)-1983.**
- **Special Programme for Women and Children (SPWC)-1983**.

Seventh Plan

- The Plan **(1985-90)** emphasised on rapid food grain production.
- **Growth, modernisation, self-reliance and social justice** remained as the guiding principles.
- **The Jawaher Rozgar yojana (JRY)** was launched in **1989** with the motive to create wage-employment for the rural poor.
- **Heavy foreign loans** on which the governmental expenditures depended heavily during the period, the economy failed to service.
- **Target Growth: 5.0% Actual Growth: 6.01%**

Eighth Plan

- Target average annual growth rate was 5.6% and achieved 6.8%
- The eighth Plan **(1992-97)** was launched in a typically new economic environment.
- The economic **reforms were already started in July 1991** with the initiation of the structural adjustment and macro-stabilisation policies necessitated by the worsening **balance of payments**, **higher fiscal deficit** and **unsustainable rate of inflation.**
- **An immediate re-definition of the state's role** in the economy was suggested.
- **Market based development** advised in area which could afford.
- **More investment in the infrastructure sector**, especially in the laggard states as the ongoing emphasis on greater private sector investment.
- **Rising non-plan expenditure and fiscal deficits need to be checked**.
- Subsides need restructuring and refocusing.
- Planning immediately **needs to be decentralised**.

- Special emphasis on **co-operative federalism suggested.**
- Greater **focus on agriculture and other rural activities** was suggested.
- **It recognised human development as the cost of all developmental efforts**

Ninth Plan

- The Ninth Plan **(1997-2002)** was launched when there was an all-round slowdown in the economy led by the south east Asian financial crisis (1996-97)
- The motto of the plan was **Growth with Social Equity**
- **Basic Minimum Services (BMS)** with **additional Central Assistance for these services** with a view to obtaining complete coverage of the population.
- The BMS include **safe drinking water, primary health service, Universalisation of Primary education, Public housing assistance to the Shelter less poor families, Nutritional Support to Children, Connectivity of all villages and habitations and streamlining of the public distribution system.**
- **Target Growth: 6.5% Actual Growth: 5.35%**

Tenth Plan

- The plan **(2002- 07)** commenced with the objective of greater participation of the NDC in their formulation.
- **Doubling per capita income in 10 years**.
- **Target growth was 8% and achieved was** 7.7%
- Accepting that the **higher growth rates are not the only objective**
- It should be translated into **improving the quality of life of the people.**
- Monitorable targets for eleven select indicators of development for the centre.
- **National horticultural mission was launched under this plan**

Eleventh Plan (2007-2012)

- The plan targets a growth rate of **10 per cent** and emphasises the idea of **inclusive growth**
- It achieved 8% growth
- It targeted **10 percent rural tele-density from existing 1.9% by the year 2010**

- The planning commission shows its concern regarding realising the growth targets because the compulsions towards the **Fiscal responsibility and Budget Management Act.**
- The commission has been estimating poverty line and poverty ratio since 1997 based on the methodology contained in the report of the Expert Group on Estimation of Number And proportion of Poor. (known as **Lakdwala Committee Report**).
- The PC constituted an Expert group in December 2005 under the chairman ship of **Prof. Suresh D. Tendulkar** to review the methodology for estimation of poverty.
- The expert group submitted its report in December 2009.
- While acknowledging the multidimensional nature of poverty, **the Expert Group recommended moving away from anchoring the poverty lines to the calorie intake norm, adopting the Mixed Reference Period (MRP)**

Twelfth Plan

- The Draft Approach Paper of the Twelfth Plan **(2012-2017)** was prepared by the Planning commission after widest consultation till date recognising the fact that citizens are now better informed and keen to engage.
- **Growth rate of 8%** is targeted for the plan.
- It emphasizes the need to intensify efforts to **have 4% average growth in the agriculture.**
- **Faster, sustainable and more inclusive growth was the motto of the Plan**

Twenty Point Programme

- The twenty-point programme (TPP) is **the second central plan which was launched in july1975**
- The programme was conceived for **coordination and intensive monitoring of a number of schemes implemented by the central and the state governments**.
- The basic objective was of improving the **quality of life of the people, especially of those living below the poverty line.**

- **Poverty alleviation, employment generation in rural arears, housing, education, family welfare and health, protection of environment** and many other schemes having a bearing on the quality of life in rural area.

MPLADS

- **MEMBER OF Parliament Local Area Development Scheme(MPLADS)** is the last of the **Central Plans** and latest to have been launched on December 23,1993 with only Rs.5 lakh given to each MPs which was increased to **Rs.1 crore in the year 1994-95.**
- **In April 2011**, the corpus was enhanced to **Rs.5 crore** while announcing the new guidelines for the scheme.
- **Normally, the fund should be used to** create durable assets like physical infrastructure for health, education, etc.

- To encourage **trusts and societies to work for the betterment of tribal people,** the ceiling of ₹50 lakh, stipulated for building assets by trusts and societies in areas occupied by tribals, has been enhanced to ₹75 lakh recently.
- Further, to **promote cooperative movement and rural development**, the Cooperative Societies have also been made eligible under the MPLAD Scheme.
- **Natural and man-made calamities** can also be allocated funds under it.
- Now the funds **can be allocated by a MP outside of Constituency/State/UTs, too**.
- Funds from **local bodies can be pooled with MPLADS works.**
- Public and community contribution is made permissible in the scheme.
- **'One MP–One Idea',** an annual competition for best innovation in solving local problems.
- According to **the 'Guidelines on Members of Parliament Local Area Development Scheme (MPLADS)' published by the Ministry of Statistics and Programme Implementation in June 2016, the MPLAD** funds can also be used for implementation of the schemes such as Swachh Bharat Abhiyan, Accessible India Campaign (Sugamya Bharat Abhiyan), conservation of water through rain water harvesting and Sansad Aadarsh Gram Yojana, etc.
- A specified portion of each MP's 'fund must benefit SC/ST populations.
- The unused fund of an year will be carried forward for the next years

- The district authority must inspect at least 10% of all works under implementation every year.

Multi-Level Planning

- It was by the **late 1950s and early 1960s** that the **states demanded the right to plan at the state level.**
- **First Strata: Centre-Level Planning**- Central plans evolved over the years – the five-year plans, the twenty-point programme and the MPLADS.
- **Second Strata:** state level planning- in 1960s the states were planning at the state level with their respective planning bodies. State planning Boards with the respective CMs being their de-facto Chairman.
- **Third Strata District Planning:** in 1960s all the districts of the states with the District Planning Boards. District Magistrate being the de-facto chairman.
- **Fourth Strata: Block- Level Planning**.

WTO AND GATT

General Agreement on Tariffs and Trade (GATT)

- **Formed in 1947 by 23 countries in Geneva and came into operational stage 1948**
- The aim of this agreement was **to establish free and fair international trade among members.**
- It wanted to dismantle all trade barriers either in the form of **tariff and non-tariff(quotas).**
- The agreement progressed and expanded through discussions called as **trade rounds**
- Head Quarters of GATT was **Geneva, Switzerland**
- A total number of **8 rounds held under GATT.**
- **1st was Geneva Round in 1947** in which 23 members established it.
- The last round was **Uruguay Round (1986-94) which resulted in the establishment of WTO**

World Trade Organization (WTO)

- Came into **existence in 1995.**
- 1st round of discussions was **Doha round (2001)** and it is still continuing.

- Initially developing countries were reluctant and resisted expansion agenda but gradually they agreed.
- Director general of that time **Arthur Dunkel** was asked to draft an agreement for consideration of members. It is called **Dunkel Draft.**
- It was signed in **Marakesh (Morocco) in 1994** and paved way for establishment of **WTO.**
- Hence, it is called **Marakesh Treaty**

Differences between GATT and WTO

- GATT= it is a **TREATY and had no dispute settlement process.**
- WTO = it is an **ORGANISATION and has dispute settlement process**.
- **GATT is Concerned with traditional issues like tariffs and quotas. It had only a Small secretariat with no institutional foundation to implement these rules.**

WTO as founded in 1995

- Geneva is the Head Quarters
- WTO has a total number of **164-member** countries (2020)
- **Afghanistan was the last member to join** the club in 2016
- Present Director General is…………………………………………………..
- WTO aims to increase international trade by slashing trade barriers.
- WTO has played a crucial role in setting up rule based multilateral trade.

Principals guiding WTO

- **Non-discriminating and rule-based trading system**.
- **Same treatment to foreign and domestic goods and services.**
- **Trade barriers** should be dismantled and free international trade
- **Less developed countries should receive preferential** terms.
- **No weighted voting like IMF and WB**
- **One country one vote- Relatively more democratic**
- **WTO is not a part of the UN.**

Structure of WTO

Descending order of Authority of WTO structure.

Ministerial Conference

- Ministerial conference is **usually held once in every 2 years.**
- The conference is represented **by commerce ministers of member countries**
- Last ministerial conference was held in……………………………………..
- 1st ministerial **conference was in Singapore in 1996.**

General Council

- General Council is responsible to **carry out decisions of ministerial conference**
- It is seated in **Geneva**
- **Represented by ambassador/equivalents of member countries**
- It has the authority to act on behalf of ministerial conference
- **Dispute settlement body-** Ambassadors/ Equivalents
- **Trade policy review body-** General council meets as TPRB to undertake trade policy review of members.

Councils of trade.

Work under **General council.**

Three councils.

- **Council for trade in goods.**
- **Council for trade related aspects of intellectual property right.**
- **Councils for trade in Services.**

Subsidiary bodies: various committees and working groups related to various fields

WTO Agreements

- There are **about 60 agreements under WTO**
- All the agreements of WTO have the status of international legal texts.

Agreement on Agriculture (AoA)

- Agriculture was one **of the most contentious issue in Uruguay round.**
- In 1994, when Marrakesh treaty was being signed, **AOA was resisted by developing countries.**

- They **won some concessional features and flexibilities**

Three pillars of it.

Domestic support

- Subsidies **given by government to farmers like food, fertilizer, power, water etc.**
- **Grouped in 3 "boxes"**
  a) **Green box: - subsidies to Research and Development** and infrastructure **like universities. There is no limit on them.**
  b) **Amber box: - Domestic subsidies to impact market price. For Example, food subsidies**
    - Need to be limited, **otherwise product of developing countries will not have access into market of developed country.**
    - **Developed countries are allowed less than developing countries in percentage terms.**

  C) **Blue box: -** Subsidies **that are direct payment to farmers to limit their production for environmental stability** For Example, leaving land fallow etc.
    - **U. S.A and Europe give more subsidies than statutory level and make good so cheap in their market that their markets are inaccessible to export from developing countries.**
    - So, **benefit for them from free trade.**
    - **It's one of concerns being discussed in Doha Round**.

Export subsidies

- It must **be limited by developed countries**
- To **protect international prices from being too low**.
- **The export of developing countries will be priced out.**

Market Access

- All members should **open their market for agricultural imports.**
- By reduction of tariffs and removal of non-tariff barriers
- Countries should undertake: -
    1. **Tariffication :- converts non – tariff barriers into tariffs.**
    2. **Bind tariffs: - limit them for maintaining international competition**

       Under this scheme, a reduction of 36% in the tariffs by developed countries and 24% by developing countries is recommended

Trade Related Aspects of Intellectual Property Rights (TRIPs)

- **Intellectual property:** - it's the work of intellect or mind that have commercial uses. For Example, drugs, literature, painting etc.
- Protected **with trademarks and patents etc.**
- Patent is given for a specified time

Types of IP

1. **Patent: -** It is granted for a new **useful and non –obvious invention.** For certain periods holder can commercially exploit the invention **(typically 20 years from the date of application)**
2. **Copy right:** - for creative and artistic works **(book, movie, music, photograph painting and software) for certain periods**
3. **Trademark: -** used to **distinguish the products or services of different business**.

TRIPS and Patents

- **It's an exclusionary right and** it grants the right to exclude other from making use of patented invention **for 20 years from filing date**
- **Inventors put the knowledge with commercial use in public domain after 20 years.**
- **It's an incentive to research and development**
- **Generic medicine: -** It is unbranded drugs for which there is only a process patent or its product is expired.

The National Intellectual Property Rights (IPR) Policy 2016

- The National Intellectual Property Rights (IPR) Policy 2016 was adopted in May 2016 **as a vision document to guide future development of IPRs in the country.**
- Its motto is **"Creative India; Innovative India".**
- **Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce, Government of India, has been appointed as the nodal department** to coordinate, guide and oversee the implementation and future development of IPRs in India.
- **The 'Cell for IPR Promotion & Management (CIPAM)', setup under the aegis of DIPP, is to be the single point of reference f**or implementation of the objectives of the National IPR Policy.
- **India's IPR regime is in compliance with the WTO's agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).**

Geographical Indication (GI)

- Some **goods own their origin to their region.**
- Climate, soil and native effort account for their fame and quality
- For Example, Basmati rice, Darjeeling Tea and Malabar Pepper
- GI is given to **an institution, community or group and not to individual**.
- It is given for a specific period, mostly 10 years
- **To agricultural, natural or manufactured good (Tirupati Ladu)**
- If registered in GI, commercial proceeds can accrue to the holder of GI.
- GI maintain quality in market and prevent spurious good.
- In 1999, India passed GI of good (registration and protection) act ,1999
- **It came into force in 2003**
- Registration in India is done by **GI registry in Chennai**

GATS: - General Agreement on Trade in Services

- Set in regulation for trade in services among WTO members.
- **Adopted in 1995 with AOA and TRIPs**
- It covers many economic activities **such as healthcare, education, telecommunication, banking, insurance, business process off shoring (BPO), tourism and so on.**
- **GATT did not cover services**. It was an innovation introduced by WTO later

- Members off one another the status of Most Favoured Nation (MFN) as in good
- **MFN grant of no discriminatory trade** and it means only normal trade

Trade Related Investment Measures (TRIMs)

- It prohibits investment restricting measures that discriminates foreign investment
- Countries should not adopt the investment measures which restrict and distort trade.
- The agreement prohibits quantitative restrictions on imports by foreign investors
- These rules apply to investment measures related to trade in goods only (Not in Services)
- The agreement is not cornered with the regulation of FDI or FII

Doha Round

- **Began in 2001 in Doha, Qatar.**
- It was **4th ministerial meet after WTO formation.**
- Singapore, Geneva, Seattle and Doha.
- Called Doha development Round because it promised **to address the issues of developing countries like India**
- Developing countries believe that they received a **raw deal under Marrakesh Treaty in agriculture, patents etc.**
- Hence, Doha Round is called as Development Round to pacify them.
- The aim of Doha round is to further liberalize international Trade for agriculture, industry and services

MFN

- The tariff policy that one county receives in an **organisation should be extended to all others**
- Some countries may form a preferential trading block within the larger body.
- **But all the other should receive normal treatment.**
- It **does not mean giving special treatment to inputs from another county**.
- WTO members normally accord MFN status to each other.

Countervailing duties

- **Special duties imposed on imports.**

- To offset the actual or potential **injurious effects (price undercutting) of subsidies to producers or exporters in the country of export.**
- **Dumping: export goods at a lower price than the price of domestic market**
- Government in importing country may levy anti-dumping duty.

Bretton Woods Institution.

- **IMF and World Bank** were formed in the **UN monetary and financial conference known as Bretton Woods conference.**
- **730 delegates from 44 Allied Nations participated** in the conference held at **Bretton woods, New Hampshire, USA**.
- The conference resulted in the formation two organisations
- **International Bank for Reconstruction and Development (IBRD)** and **International Monetary Fund (IMF).**

Aims

- IBRD aimed to speed up post war reconstruction
- IMF aims to foster monetary stability at global level known as Benetton woods twins.

IMF

- IMF is a UN specialised agency established in 1944 along with world Bank.
- Total number of members is **190**
- **Andorra is the last country to join in 2020**
- **Washington DC** is the Head Quarters of IMF
- Present managing director of IMF is……………………………………………………
- **Managing director is assisted by 24 directors** appointed by member countries or group of countries
- **……………………..** is the Indian among 24 directors of IMF
- He represents **India, Bangladesh, Sri Lanka and Bhutan** in the IMF
- IMF **started functioning in 1947**
- **Each member is assigned a quota based upon its relative size in the world economy**

- Each member country is represented by **a governor and alternate governor in IMF**. For India, **Finance Minister is the ex officio governor** and **RBI governor is the alternate governor**

Major Functions of IMF

- **To facilitate international monetary cooperation**
- To **promote exchange rate stability**
- To **assist countries to correct Balance of Payment crisis**
- **IMF lends to only member countries**
- **IMF does not lend for specific project**
- IMF publishes the magazine **"World Economic Outlook" and Global Financial Stability Report'**

Special Drawing Rights (SDR)

- **It is an International Reserve Asset c**reated by IMF in 1969.
- The aim is to supplement its member countries official reserves.
- Its value is based on a basket of 5 key currencies- **US dollar, Japanese Yen, Euro, Chinese Renminbi/Yuan and Pound Sterling**
- SDR **can be exchanged for national currencies**
- It is neither a currency nor a claim on IMF
- It is potential claim on the freely usable currencies of IMF members

Gold Tranche (Reserve Tranche) with IMF

- **It is a segment of an IMF member country's quota with the IMF that is in the form of gold or foreign currency**
- It is accessible for the member country without fees or economic reforms conditions
- All members of the IMF **have to give the quota amount with the IMF (25% in foreign currency and 75% in domestic currency)**
- **This 25% foreign currency is known as reserve tranche** and it can be withdrawn by the country at its discretion
- **It is a credit system of the IMF to its member countries**

- If the amount requested by the member country exceeds its reserve tranche, then it becomes **credit tranche that must be repaid within 3 years with additional interest**
- Before 1978, reserve tranche was paid in gold and **it was called as gold tranche**

India and the IMF

- India joined in **1945 as original member.**
- At present India is donor to IMF
- India has a voting value of 2.76 percent and is positioned in **8th rank among members**
- Value of the vote **is decided based on donation**
- India signed the **Extended Fund Facility with IMF (discussed in the class on Foreign Trade)**

World Bank Group and World Bank

World Bank group:

- A family of **five international organisations**
- **Gives loan generally to poor countries**
- Established in **1945 following Bretton woods agreement**
- Responsible to **Prepare World Development Report**
- Commenced operation in **1946 by post-war reconstructions**
- Currently it lends to poor countries for development and to fight poverty.
- Washington DC is the Headquarters of World Bank
- **World Bank is a part of UN, but each institution of WB group is owned by member government**
- **World Bank group manages The Global Infrastructure Facility (GIF)**
- **GIF is a partnership among governments, multilateral development banks, private sector investors, and financiers. It is designed to provide a new way to collaborate on preparing, structuring, and implementing complex projects that no single institution could handle on its own.**
- Membership gives certain **voting rights that are same for all countries**
- But there are **additional voting rights which depends upon contributions**
- President is conventionally **an American**
- Present president of the World Bank is……………………………………..

5 Agencies of World Bank Group

- **International Bank for reconstruction and development. (IBRD)**
- **International Development Association (IDA)**
- **International Finance Corporation (IFC)**
- **Multilateral Investment Guarantee Agency (MIGA)**
- **International centre for settlement of Investment Disputes (ICSID)**

World Bank Means IBRD +IDA.

Focuses on developing countries in following fields

- Human development (Education and Health)
- Agriculture and rural development (Irrigation, Rural services etc.)
- Environmental protection (Pollution reduction, Enforce regulation)
- Infrastructure (Roads, Urban regeneration, Electricity)
- Governance (Anti-corruption, Legal institutions development)

India's voting share at present is…………………………………………………………………..

- World bank publishes the **Ease of Doing Business Index** and '**Global Economic Prospects' report**
- **World Bank also manages 'Biocarbon Fund Initiative for Sustainable Forest Landscapes'**
- **The Fund seeks to promote reduced greenhouse gas emissions from the land sector, from deforestation and forest degradation in developing countries**

Ease of Doing Business Index

- The report was **introduced by the World Bank in 2003 to provide** an assessment of objective measures of business regulations and their enforcement across **190 economies on following ten parameters affecting a business through its life cycle.**
  1. Starting a business
  2. Dealing with construction permits
  3. Getting electricity
  4. Registering property
  5. Getting credit
  6. Protecting investors

7. Paying taxes
8. Trading across borders
9. Enforcing contracts
10. Resolving insolvency proceeding

- According to the 2020 report, **New Zealand retained its 1st position** whereas **Somalia was ranked at 190th position**
- **India was placed at 63rd position this time (2019) out of 190** countries marking an **improvement of 14 places from its 77th position in 2018.**
- **India's score improved from 67.23 in the previous year to 71.0 this year.**

The International Bank for Reconstruction and Development (IBRD)

- **It is the oldest** of World Bank institutions which **started functioning in 1945**
- **Original Mission** was the reconstruction after 2nd world war
- Current mission is to fight poverty by financing states
- It commenced lending for India in 1949

The International Development Agency (IDA)

- It is also known as the **soft window of the World Bank**
- It was established in 1960 with the aim of **developing infrastructure support among member nations**
- It provides **long term interest free loan (for 35-40 Years)** for economies with **low per capita income**
- Repayment of the loan starts after **a grace period of 10 years**
- **IBRD raises funds on world's financial market** and IDA **raises Funds through contribution from rich members**

The International Finance Corporation (IFC)

- IFC was established **in 1956**
- It is also known as the **private arm of the World Bank**
- It lends money only to **private sector companies in its member countries**
- It also finances and advises for **private public partnership ventures also**
- It charges **commercial but comparatively less interest rate**

- It aims economic development by promoting productive enterprises and efficient capital market in the member countries
- Headquarters of IFC is located **at Washington DC**
- **Largest multilateral source of loans and equity financing** for private sector projects in developing world.
- It **has recently issued Masala Bond** for Indian Business owners (**It is first rupee convertible international bond)**

The Multilateral Investment Guarantee Agency (MIGA)

- It was Founded **In 1988 to** encourage foreign **investment in developing countries by offering insurance (guarantees) for investors for loss caused by non-commercial (political) risks**
- Non-commercial risks include **currency transfer, expropriation, war and disturbance**
- The aim is to promote **FDI Into Developing Countries**.
- Headquarters of MIGA is also in **Washington DC**
- MIGA can cover only new investments. These include New Greenfield investment and new investment associated with expansion, modernisation, or financial restructuring of existing projects.
- It also guarantees acquisition involving privatisation of state enterprises.

The International Centre for Settlement of Investment Disputes (ICSID)

- It was set up in **1966 as** an **investment settlement body whose decisions are binding on the parties**
- It was established under the **Convention on the Settlement of Investment Disputes between States and Nationals of other States in 1966**
- **India is not a member of ICSID**
- Its headquarters in based in Washington.
- WB President functions as the chairman of ICSID
- Provides facilities of conciliation and arbitration of investment disputes between members and individual

Organization for Economic Cooperation and Development

- It was established after **World War II to encourage cooperation and reconstruction rather than punishing the defeated**
- The original version of the organization was founded **in 1947 in the name of Organization for European Economic Cooperation** to run the US financed **Marshal Plan for reconstruction after the war**
- In 1960, when **Canada and the US joined** the organization, the name was changed **into OECD**
- The new organization OECD was officially born in **1961 with 30 members**
- Presently, the organization **has 36-member countries** and they help each other in formulating economic policy
- **India is not a member in OECD**
- **OECD Headquarters is in Paris**

BRICS

- **BRICS is the annual summit of world's leading emerging economies, namely Brazil, Russia, India, China and South Africa.**
- **It does not exist in the form of an international organization**
- **The Chairmanship of the forum is rotated annually among the members in the alphabetic order**
- **The BRICS Leaders' Summit is convened annually.**
- **Together, BRICS accounts for about 40% of the world's population and about 30% of the GDP**
- **The first BRIC Summit took place in 2009 in the Russian Federation and focused on issues such as reform of the global financial architecture.**
- **South Africa was invited to join BRIC in December 2010, after which the group adopted the acronym BRICS. South Africa subsequently attended the Third BRICS Summit in Sanya, China, in March 2011.**

BRICS Bank/ New Development Bank

- BRICS is the organization of **Brazil, Russia, India, China and South Africa**

- **In Fortaleza (City in Brazil) Declaration of BRICS** head of States, they proclaimed to create a new bank in the name of **New Development Bank or BRICS Bank**
- It is known as **Fortaleza Declaration**
- **Shanghai in China is the headquarters of the BRICS Bank**
- Following are the major highlights of the bank
    1. The bank will have initial subscribed capital **of $50 billion shared equally by all the 5-member countries**
    2. The capital is used for funding infrastructure and **sustainable development projects in BRICS member countries**
    3. **Other low and middle-income countries would also get funds in the future**
    4. A **contingent reserve arrangement** of $**100 billion will also be created for to give additional protection to nations during BOP crisis**
    5. CRA funding would be **41% by china, 18% by Russia, India and Brazil and 5% by South Africa**
    6. The bank would follow **one member-one vote system**

Asian Infrastructure Investment Bank (AIIB)

- It was first proposed by **Chinese President Xi Jinping in 2013**
- It opened **business in 2016**
- **India is a member** in AIIB
- **It has members from Asia and outside Asia as well**
- **Beijing** is the headquarters of AIIB
- Present President is……………………………………………….
- The aim is to finance infrastructure development programmes in different Asian countries
- It is **a commercial bank than a development bank**

World Economic Forum

- It is **Swiss based non-profit foundation**
- The motto is **"committed to improving the state of the world"**
- It was founded by a German economist **Klaus Schwab** and he is also the present executive chairman of **WEF**

- The forum is known for its annual **meeting at Davos**, a mountain resort on Alps in Switzerland
- The meeting brings together more than **2500 businessmen and political leaders from the world**
- **'Global Gender Gap Index' is released by the WEF**
- **The Global Competitiveness Report of the WEF measures the competitiveness of different economies in the world**

International Monetary and Financial Committee

- **The International Monetary and Finance Committee is a body under the IMF (International Monetary Fund).**
- **It is an advisory body without decision making powers but helps in providing strategic direction to IMF.**
- **The IMFC meets twice every year- the annual meeting in October and the spring meeting in April**
- **The size and composition of the IMFC is similar to that of the IMF's Executive Board (24 Members)**
- **World Bank is an observer in this organization**

International Organizations

Commonwealth of States

- It is the organization of **earlier British Colonies except Mozambique**
- Headquarters is in **Marlborough House in London**
- In total there are **54 members**
- **British Queen Elizabeth II British king Charles III** is the present head of the organization
- Assembles in **every 2 years**

South Asian Association for Regional Cooperation

- **Katmandu** is the permanent headquarters
- **It was founded in 1985 in Dhakka, Bangladesh**

- It has **8 members** (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
- It was suggested **Zia ul Rahman, the ex-president of Bangladesh**
- Present Secretary General is…………………………………………………………

NATO (North Atlantic Treaty Organization)

- **Brussels in Belgium** is the headquarters
- It is the most powerful defense organization in the world
- **"A Mind Unfettered in Deliberation"** is the motto of NATO
- It has **30 permanent members**
- Present Secretary General is…………………………………………………………….
- **NORTH MACEDONIA Was The Last Country To Get The Membership In 2020**

Association of Southeast Asian Nations

- **Jakarta** is the headquarters
- It has **10 members**
- **One Vision, One Identity, One Community** is the motto of ASEAN
- Its basic aim is **economic protection in the field of banking**
- **The Regional Comprehensive Economic Partnership (RCEP) is a proposed agreement between the member states of the Association of Southeast Asian Nations (ASEAN) and its 6 free trade agreement (FTA) partners.**
- **The six free trade agreement partners are Australia, China, India, Japan, Korea, and New Zealand**
- **The Regional Comprehensive Economic Partnership was introduced during the 19th ASEAN meet held in November 2011**

East Asia Summit

- **The concept of an East Asia Grouping was first promoted in 1991 by the then Malaysian Prime Minister, Mahathir bin Mohamad.**
- **The first summit was held in Kuala Lumpur, Malaysia on 14 December 2005.**
- **Kuala Lumpur Declaration expressed that EAS is an "open forum" for dialogue on strategic, political, and economic issues in order to promote peace, economic prosperity, and regional integration in East Asia.**

- **India is a founding member of the East Asia Summit.**
- **Total 18 Members**
- **10 Members of ASEAN and Australia, China, Japan, India, New Zealand, the Republic of Korea, Russia and the United States.**
- **The EAS is an ASEAN-centred forum; it can only be chaired by an ASEAN member.**

Asia-Pacific Economic Cooperation

- **Established: 1989**
- **Members: 21**
- **India is not a Member.**
- **Member Nations: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, Vietnam and the United States.**
- **India had requested membership in APEC, and received initial support from the United States, Japan, Australia and Papua New Guinea. Officials have decided not to allow India to join as India does not border the Pacific Ocean, which all current members do.**
- **India was invited to be an observer for the first time in November 2011.**

EU (European Union)

- **Brussels in Belgium** is the headquarters
- **"United in Diversity"** is the motto of the organization
- It has 27 members
- United Kingdom went through the exist procedure due to **Brexit**
- The common currency of **EU is Euro**
- **Broad-based Trade and Investment Agreement (BTIA) was a negotiation on trade and investment between India and the EU**
- **General Data Protection Regulation is a law on data protection and privacy for the citizens of the member countries of the EU**

Organization of Petroleum Exporting Countries (OPEC)

- Headquarters is in **Vienna, Austria**
- It has **13 members**
- **Congo was the last country to join in 2018**
- **Qatar terminated its membership in 1st**
- Present Secretary General is **…………………………………………………………**

Asian Development Bank

- Headquarters in **Manila, Philippines**
- **"Fighting Poverty in Asia and the Pacific"** is the motto of the bank
- **It has 68-member countries**
- **Niue was the last member to join**
- **Present President is………………………………………………………………………**
- Aim is to **lend money to Asian countries at low interest rates**

World Conservation Unit/ International Union for Conservation of Nature

- It is shortly called as **IUCN**
- Largest **body to protect nature**
- Headquarters is in **Glant, Switzerland.**
- **It has 1400-member organizations** from different parts of the world
- Present Director General of IUCN is…………………………………………………

Organization of Islamic Cooperation

- Its headquarters is in **Jeddah, Saudi Arabia**
- It has **57 members**
- Present Chairman is……………………………………………………………………...

Non-Aligned Movement

- The term was coined by **Jawahar Lal Nehru**
- Jawaharlal Nehru, Sukarno (first President of Indonesia), Tito (President of Yugoslavia) and Gamal Abdel Nasser (President of Egypt) are considered as founding fathers of NAM
- It has **120 members and 17 observers**

- It **does not have a permanent secretariat**
- Meets **every 3 years** and the chair is passed to the host country at the time of meeting
- **18th NAM Summit was held in Azerbaijan in 2019.**
- **Present Chair is……………………………………………………………………….**

Mekong- Ganga Cooperation (MGC)

- It was established in **2000 by six countries**
- **India, Myanmar, Thailand, Laos, Cambodia and Vietnam**
- First steps are **tourism, culture and the development of human resources**

Indian Ocean Rim Association

- The association was **established in 1997** as a regional forum that seeks to build and expand understanding and mutually beneficial cooperation **through a consensus-based, evolutionary and non-intrusive approach.**
- **IORA has 22 member** states, including **Australia, Bangladesh, Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Maldives, Mauritius, Mozambique, Oman, Seychelles, Singapore, Somalia, South Africa, Sri Lanka, Tanzania, Thailand, UAE, and Yemen.**
- Its Secretariat is based **in Cyber City, Ebène, Mauritius.**
- It manages, coordinates, services and **monitors the implementation of policy decisions, work programmes and projects adopted by the member states.**
- The association gains importance by the fact that **the Indian Ocean carries half of the world's container ships, one-third of the world's bulk cargo traffic and two-thirds of the world's oil shipments.**
- It is a **lifeline of international trade and transport and the Indian ocean region is woven together by trade routes and commands control of major sea-lanes.**

The Nuclear Suppliers Group (NSG)

- It has **48 members**
- It was established **in 1975**
- It aims to prevent misuse of nuclear export for peaceful and commercial purposes
- Member countries will **have access to the latest and most efficient nuclear technologies**

Gulf Cooperation Council (GCC)

- The GCC is a regional intergovernmental political and economic union consisting of all Arab states of the Persian Gulf - **Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates**

Doctors Without Borders/ Médecins Sans Frontières (MSF)

- Doctors Without Borders/ Médecins Sans Frontières (MSF) **is an international, independent, medical humanitarian organisation that delivers emergency aid to people affected by armed conflict, epidemics, natural disasters and exclusion from healthcare.**

Global Hunger Index

- It is jointly published by **Concern Worldwide and Welthungerhilfe** every year
- It was first produced in 2006 and is published every October.
- It aims to comprehensively measure **and track hunger at the global, regional, and country levels.**
- It is calculated on the basis of four indicators:
  1. **Undernourishment:** Share of the population with insufficient caloric intake.
  2. **Child Wasting:** Share of children under age five who have low weight for their height, reflecting acute undernutrition.
  3. **Child Stunting:** Share of children under age five who have low height for their age, reflecting chronic undernutrition.
  4. **Child Mortality**: The mortality rate of children under the age of five.

G 20

- The G20 is an informal group of **19 countries and the European Union,** with representatives of the **International Monetary Fund and the World Bank.**
- The group originated during **1997-99 Asian Financial Crisis**
- **Amid 2008 Financial Crisis** the world saw the need for a new consensus building at the highest political level. It was decided that the G20 leaders would begin meeting once annually.
- The members of the G20 are **Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia,**

Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union.

The United Nations

- The name was coined by the **US President Franklin D. Roosevelt** during the declaration of United Nations on **1st January 1942**.
- The forerunner of UN was **League of Nations**
- It has total **193 members** (**South Sudan was last to join in 2011**) and **2 observers (Holy See and the State of Palestine)** today
- Headquarters is **New York in the US**
- UN has declared **October 2** (Birthday of Mahatma Gandhi) as **International day of Non-Violence**
- **Present** Secretary General is ……………………………………………………………………
- It has six official languages: **Arabic, Chinese, English, French, Russian and Spanish**

Organizations of the UN

The General Assembly of the UN

- All members are represented in the General Assembly
- It is called **town meeting of the world**
- It approves **UN Budget**
- It meets **every year**

The Security Council

- It has primary responsibility to maintain **international peace and security**
- It has total **fifteen members and five of them are permanent members**
- **China, France, Russia, the UK and the US** are the permanent members
- Permanent members have a **special voting power called Veto**

The Economic and Social Council

- It coordinates the work of **14 UN Specialized organizations**

- It has **54-member governments** which are elected for **3-year terms** by the General Assembly
- Present President of Economic and Social Council is………………………………….

The international Court of Justice

- Any member country can bring a case in the court
- It is composed of **15 judges selected for a term of 9 years by the General Assembly** and **Security Council sitting separately**
- One nation will not get more than one Judge.
- **Dalveer Bhandari** is the Indian member now
- **Present President is………………………………………………………………………**
- Headquarters is in **Hague, Netherlands**

The UN Peacekeeping

- UN Peacekeepers are generally known as **Blue Berets** because of their light blue berets or helmets
- Present head of Peacekeeping is………………………………………………………..

The United Nations Development Programme

- Present head is ………………………………………………………………………...
- **New York City** is the headquarters
- It is for administering technical assistance for less developed states
- Came into **existence in 1965**
- It prepares **Human Development Index ranking every year**

UNICEF (The United Nations Children's Fund)

- Its headquarters is in **New York**
- It aids children in more than **150 countries**
- Present President of UNICEF is…………………………………………………………

The Food and Agriculture Organization (FAO)

- Headquarters in **Rome, Italy**

- Director General of FAO at present is…………………………………………………….
- **Globally Important Agricultural Heritage Systems (GIAHS)** is a accreditation of the FAO for the **indigenous practices of the agriculture which are friendly to ecology and environment**

UN Women

- It was established in **2010**. It is the **last established organ of UN**
- Headquarters is in **New York**
- Present head is……………………………………………………………………………

United nations Environment Programme UNEP

- It works for the protection of environment
- Headquarters is in **Nairobi, Kenya**.
- Present head is **………………………………………………………………………….**

International Labour Organization (ILO)

- It stands for social justice and internationally recognized human and labour rights
- It was founded in **1919** and is the only **surviving creation of treaty of Versailles (it created league of nations)**
- Headquarter is at **Geneva in Switzerland**
- India is a founding member of ILO
- Present chief is……………………………………………………………………………

The United Nations Educational, Scientific and Cultural Organization

- The headquarters is in **Paris, France**
- **It manages the World Heritage List**
- Present Director General is………………………………………………………………..

World Health Organization

- It is the specialized agency of UN for health-related activities
- Headquarters is at **Geneva, Switzerland**
- Present Director General is……………………………………………………………….

International Atomic Energy Agency

- It is also known as **Atoms for Peace Agency**

- Headquarters is in **Vienna, Austria**
- It manages **Non-Proliferation Treaty**
- It has frozen the number of declared nuclear weapon states **at five; USA, Russia, UK, France and China.**
- **It is mandatory that all atomic reactors using imported Uranium should follow IAEA safeguards**
- The present head is…………………………………………………………………….

UN-Habitat

- The United Nations Human Settlements Programme is the **United Nations programme for human settlements and sustainable urban development.**
- It was established in 1978 as an outcome of the First UN Conference on Human Settlements and Sustainable Urban Development **(Habitat I) held in Vancouver, Canada, in 1976.**
- UN-Habitat maintains its headquarters at the United Nations Office **at Nairobi, Kenya**.
- It is mandated by the United Nations General Assembly to promote **socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all.**
- **It collaborates with governments and private organizations for fulfilling this purpose**
- The twin goals of the Habitat Agenda are:
- Adequate shelter for all.
- The development of sustainable human settlements in an urbanizing world
- UN-Habitat contributes to the **overall objective of the United Nations system to reduce poverty**

Global Hunger Index

- It is jointly published by **Concern Worldwide and Welthungerhilfe** every year
- It was first produced in 2006 and is published every October.
- It aims to comprehensively measure **and track hunger at the global, regional, and country levels.**
- It is calculated on the basis of four indicators:

5. **Undernourishment:** Share of the population with insufficient caloric intake.
6. **Child Wasting:** Share of children under age five who have low weight for their height, reflecting acute undernutrition.
7. **Child Stunting:** Share of children under age five who have low height for their age, reflecting chronic undernutrition.
8. **Child Mortality**: The mortality rate of children under the age of five.

G 20

- The G20 is an informal group of **19 countries and the European Union,** with representatives of the **International Monetary Fund and the World Bank.**
- The group originated during **1997-99 Asian Financial Crisis**
- **Amid 2008 Financial Crisis** the world saw the need for a new consensus building at the highest political level. It was decided that the G20 leaders would begin meeting once annually.
- The members of the G20 are **Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union.**

United Nations Convention against Corruption (UNCAC)

- **The United Nations General Assembly adopted the United Nations Convention against Corruption in 2003 and designated December 9 as International Anti-Corruption Day with the aim of creating awareness about corruption**
- **The UNCAC is the only legally binding global anti-corruption instrument**
- **The United Nations Office on Drugs and Crime (UNODC) is the custodian of the UNTOC**

United Nations Convention against Transnational Organized Crime (UNTOC)

- **The Convention against Transnational Organized Crime or UNTOC is also known as the Palermo Convention since it was adopted in Palermo in Italy in 2000.**
- **The UNTOC is supplemented by three Protocols**

1. **Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (Adopted in 2003)**
   It is the first global legally binding instrument with an agreed definition of trafficking in persons.
2. **Protocol against the Smuggling of Migrants by Land, Sea and Air (Adopted in 2004)**
3. **Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition (Adopted in 2001)**

- **The United Nations Office on Drugs and Crime (UNODC) is the custodian of the UNTOC**

Money Supply in India

- **RBI publishes figures for five alternative measures of money supply, viz. M0, M1, M2, M3 and M4**

Reserve Money (M0)

- **It is also known as High-Powered Money, monetary base, base money etc.**
- **M0 = Currency in Circulation + Bankers' Deposits with RBI + Other deposits with RBI.**
- **It is the monetary base of the economy.**

Narrow Money (M1 and M2)

- **M1 = Currency+ Demand Deposit**
- **M2 = Currency+ Demand Deposit (M1) + Savings deposits with Post Office savings banks**

Broad Money

- **M3 = Currency+ Demand Deposit (M1) + Net time deposits of commercial banks**
- **M4 = Currency+ Demand Deposit+ Net time Deposits of Commercial Bank (M3) + Total deposits with Post Office savings organisations (excluding National Savings Certificates)**

Other Classification of Money

Commodity Money

- **Commodity money is the type of money that is made of precious metals or commodities that have intrinsic value. Its worth remains intact even after it is melted. Gold and silver coins are the perfect example of commodity money.**

Commodity-based money

- **This type of monetary system can also be addressed as representative money. This type of currencies is mostly like physical bank-notes with no financial value but can be exchanged with precious metals like gold and silver. This is closely related to the term gold standard.**

Fiat Money

- **This type of money is also termed as legal tender as notified by the Central Government and Central Bank. This is unlike the commodity money; it might not have an intrinsic value. Paper currencies and metal coins are examples of fiat money.**